Bell Canada
Annual Report 1980

1981 Annual Meeting

The Annual General Meeting of the Shareholders will take place at 2:00 p.m., Tuesday, April 21, 1981 in the Grand Salon of The Queen Elizabeth Hotel, Montréal.

Form 10-K

Bell Canada's Annual Report on Form 10-K is available from the date of its filing with the Securities and Exchange Commission in the United States by writing to:
The Corporate Secretary
Bell Canada
1050 Beaver Hall Hill
Montréal, Québec
H3C 3G4

Sur demande, le secrétaire de la compagnie vous fera volontiers parvenir un exemplaire français du rapport annuel.

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Bell Canada
Executive Offices
1050 Beaver Hall Hill
Montréal, Québec
H3C 3G4

Financial Highlights

All figures in Canadian dollars	Dollars in thousands except per share amounts	1980	1979	1978
Consolidated	Earnings per common share (before extraordinary items)	$ 2.00	$ 2.64	$ 2.49
	Total revenues	$6,037,084	$5,264,739	$4,374,355
	Income before extraordinary items	$ 363,745	$ 433,186	$ 370,562
	Net income	$ 273,730	$ 433,186	$ 395,052
Non-Consolidated	Earnings per common share (before extraordinary item)	$ 2.01	$ 2.13	$ 1.96
	Total revenues	$3,656,721	$3,136,903	$2,683,083
	Income before extraordinary item	$ 365,941	$ 355,810	$ 300,817
	Net income	$ 365,941	$ 385,645	$ 304,939
	Rate of return on average common equity (before extraordinary item)	10.64%	11.51%	11.09%
	Capital expenditures	$1,296,997	$1,116,743	$1,003,672

This report is about change, a process which began at Bell the day the company was founded 101 years ago. It also tells how the company adapts to that change – adapts to it by looking and planning ahead; by applying new methods and new technologies to a solid base of present-day service; and by continually refining and improving that service to make optimal use of all available resources.

Mostly, however, this is a report about the people who make it all happen.

The cover and adjacent photo present a striking example of the changes affecting the industry. The microscope and fibre optics technologies, once found only in the world of the research scientist, are now being tested and used under field conditions. Bell technicians George Flynn (left and cover) and John Hull (far left) are splicing hair-thin optical fibres, maintaining the fibre's ability to transmit signals at 98 per cent of its original capacity.

Bell Canada and its manufacturing subsidiary, Northern Telecom, operate Canada's largest private industrial research facility, Bell-Northern Research. Inventions resulting from Research and Development activity in the Bell group of companies have generated a remarkable 1,700 Canadian and international patents.

As an important part of product development, BNR investigates the compatibility of new technology to its environment. In a radio-frequency anechoic chamber, Bill Larkin, of the Electromagnetic Engineering Department, evaluates the characteristics of a new Vantage 12 unit.

Letter to Shareholders

The year 1980 was a testing time, socially, politically and financially. Bell Canada was fortunate to enter this period with a staff of able and productive men and women in a corporation backed by a century of practical experience in meeting challenges and handling change.

The year 1980 was a testing time–socially, politically and financially–both at home and abroad. It challenged the abilities of nations and of individuals and their organizations to adapt to new conditions, new situations, new relationships. Bell Canada was fortunate to enter this period with a staff of able and productive men and women in a corporation that is backed by a century of practical experience in meeting challenges and handling change, in anticipating new requirements and developing the skills and the operating systems to satisfy them.

Our report to the shareholders last year described some major changes in telecommunications which occurred during the company's first 100 years–changes to which it successfully adapted and which stand today as milestones measuring its progress. The transition from crank-operated telephones to the common-battery system, for example; the extremely complex changeover from manual to dial operation; installation of Canada's first electronic switching system; continent-wide digital data transmission; and, now, the incorporation into the system of digital switching and fibre optics technology–all of these changes bear witness to the company's ability and willingness to adapt to changing circumstances and requirements, and to initiate improvements in services and facilities.

It is our continuing responsibility to be alert and sensitive to changes in our ever-evolving operating environment, and to make a substantial contribution in the shaping of that environment.

Among the significant changes to take place were those resulting from certain decisions handed down by governmental agencies.

Among the significant changes which engaged the attention of our management team in 1980, and which continue to be of concern, were those resulting from certain decisions handed down by governmental agencies. A case in point is the Interim Decision, issued by the Canadian Radio-television and Telecommunications Commission (CRTC) in August 1980, permitting attachment to the company's network of telephones and other terminal devices, provided by the customer, and obtained on the open market.

A case in point is the Interim Decision issued by the CRTC permitting attachment to the company's network of telephones and other terminal devices obtained on the open market.

This company has long advocated the liberalization of restrictive terminal attachment regulations and the introduction of competition in the provisioning of customer-owned equipment, and has urged that adequate safeguards should first be established to protect the interests of Canadians with regard to the quality and cost of service and the job security of people employed in the Canadian telecommunications industry. The CRTC decision was issued, however, without reference to a number of vitally important public interest issues that had been raised not only by the company but also by the Ontario and Québec governments, as well as by a number of concerned Canadians. The issue most often raised was the threat to Canadian manufacturers posed by terminal equipment imported from foreign countries, most of which do not permit the reciprocal importation of competitive Canadian-made telecommunications products.

In a similar vein, last November the Department of Communications granted a temporary licence to Canadian Cablesystems Ltd. to construct and establish an extensive and integrated microwave network for the local and intercity delivery of television signals, initially between Oshawa and London in the industrial heartland of Ontario. We see the granting of this licence, when coupled with the cable television companies' existing delivery systems, as a potentially significant step towards the development of another nationwide network on top of those offered now by the regulated telecommunications common carriers. Although public policy on this matter is undergoing a formal review, the interim nature of the decision is another example of a major issue being tackled on a piecemeal basis without adequate consideration of its overall implications.

The problem, from the company's point of view, is not competition; it is the present incompatible mixture of competition and regulation.

The problem, from the company's point of view, is not competition; it is the present incompatible mixture of competition and regulation. The telecommunications industry was born in an atmosphere of competition. Then, as demand for the service grew, it became apparent that effective and efficient service for all customers could best be provided through an interconnected network of territorial monopolies, which had an obligation to provide service to all, and governmental regulation was introduced to replace competition as the guardian of the public interest. Today, however, competition is being superimposed on regulation by ad hoc, interim and uncoordinated decisions of various agencies of government, providing an opportunity for non-regulated companies entering the field to concentrate on the most profitable areas and thus jeopardize the ability of the regulated common carriers to spread their costs and keep basic service rates as low as possible.

A. J. de Grandpré

J. C. Thackray

Another matter of concern in 1980 was the persistent failure of company revenues to keep pace with the rise in the costs of operation.

There is an urgent need for a clearer understanding by legislators, regulators and consumers alike concerning the short-term and long-term public interest in Canadian telecommunications, and of the potentially disastrous side-effects of piecemeal regulation and ad hoc decisions by government agencies. Just as urgent is the need for a clear definition of national industrial strategies for Canada. Is it in Canada's best interest to foster home-based research and development activity that can strengthen sovereignty, or is it not? Do we want Canadian companies to be able to compete successfully in world markets, or don't we? Would not all Canada benefit if we could increase our exports of finished goods, services and expertise, and thereby reduce the balance of payments deficit and strengthen the Canadian dollar? Lacking a coherent national industrial strategy which addresses these and other vital questions, Canadian industrialists and business managers are too often frustrated in their efforts to achieve useful goals by unduly restrictive and conflicting rules and regulations which hamper rather than help.

Another matter of concern in 1980, on which our most diligent attention will continue to be focused in 1981, was the persistent failure of company revenues to keep pace with the rise in the costs of operation. It will be recalled that in our application for approval of rate adjustments, filed in February 1980, we sought only limited, short-term relief which we deemed necessary to enable the company to realize in 1980 a level of return on common equity comparable with that earned in 1979. A measure of relief was granted in August but it was not sufficient to prevent a further decline in the regulated return on average common equity to 11.07 per cent for 1980–nearly a full percentage point below the 12 per cent level established as early as 1974 and considered in 1978 by the regulatory authorities as fair and reasonable. Furthermore, that 11.07 per cent return figure was reached only by including in the calculation, at the direction of the CRTC, amounts resulting from operations not related to the provision of telecommunications services in Bell's territory.

Our financial advisors and investors confirm that the existing 12 per cent limit on Bell Canada's permitted common equity return is too low, considering business risks added to the company's operations by the introduction of a competitive environment and the present economic conditions. If this company is to be able to continue to raise the additional capital needed to enable it to keep pace with the continuing demand for more and better service, its securities must be sufficiently attractive to compete successfully with those offered by others on the financial markets of Canada and the world.

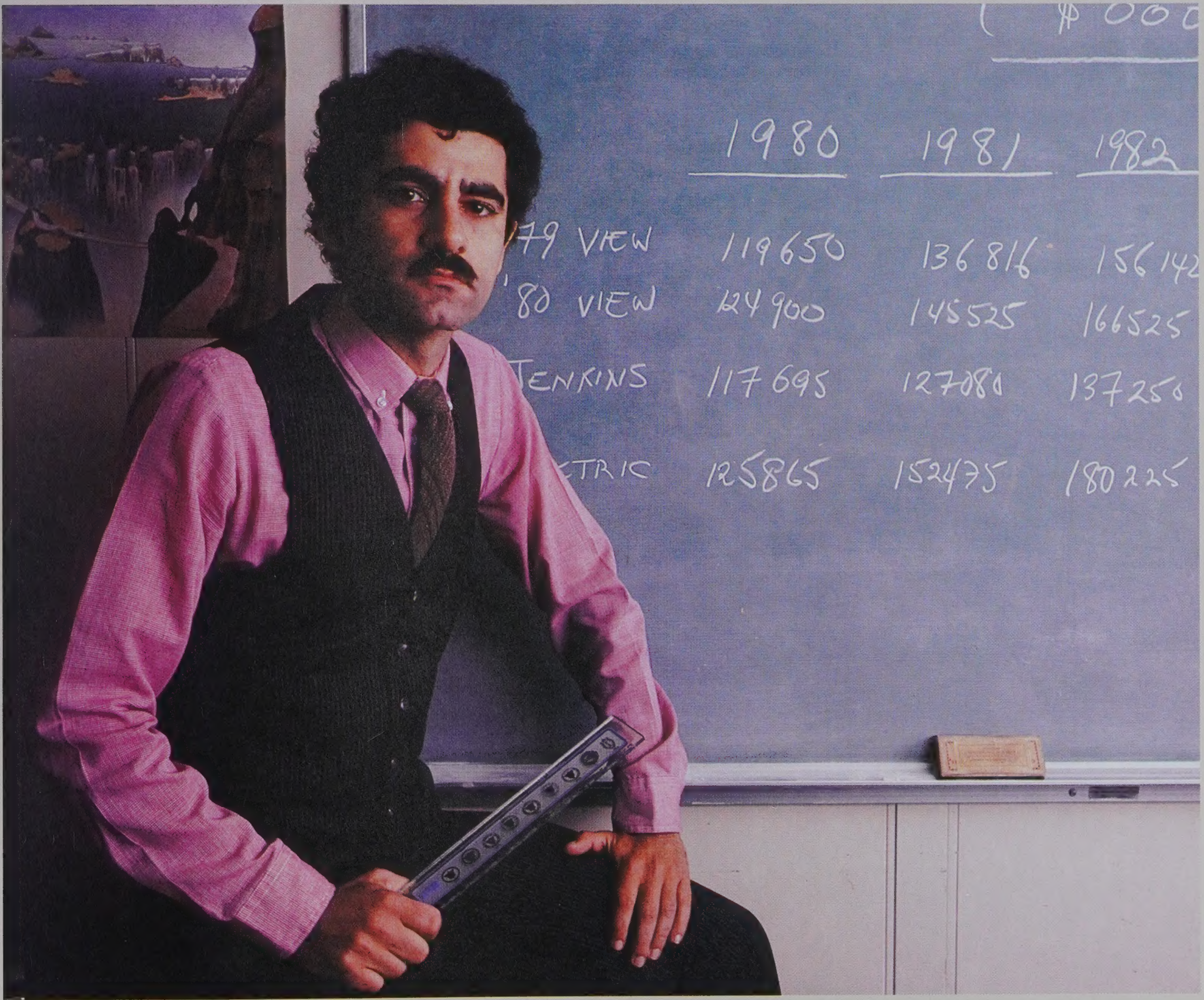
It is this message, and all that it implies, which we shall deliver to the regulatory authorities at the forthcoming public hearings on our current application for a more equitable level of permissible return and for a tariff schedule that provides for fair, reasonable and realistic rates.

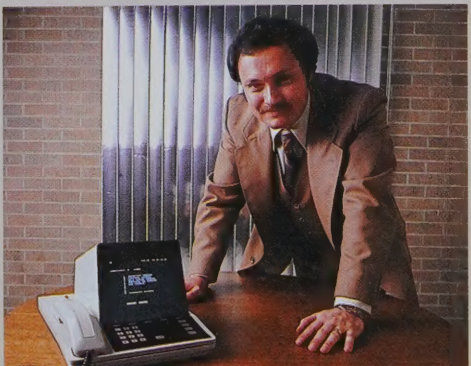
A. J. de Grandpré
Chairman of the Board

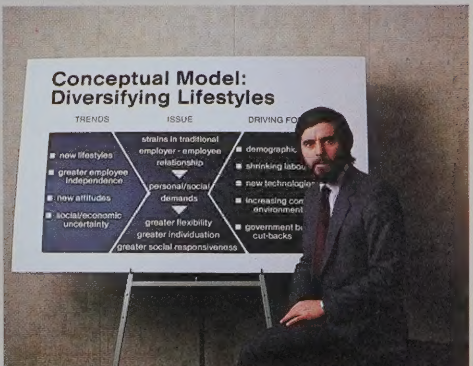
J. C. Thackray
President

February 25, 1981

The development of new products takes place in a framework that uses the skills of revenue forecaster Samir Talhami to establish the company's financial ability to support such development; of Jack Harvey, chairman of a joint Bell Canada, Northern Telecom and Bell-Northern Research Technology Coordinating (working) Committee which sets priorities for and coordinates the process of product development; of Jim Kyd, a market researcher whose job is to identify the future market needs of Bell's customers; and Brian Milton, an analyst whose task is to identify current and emerging social and environmental issues which may influence how and when new technology is introduced.

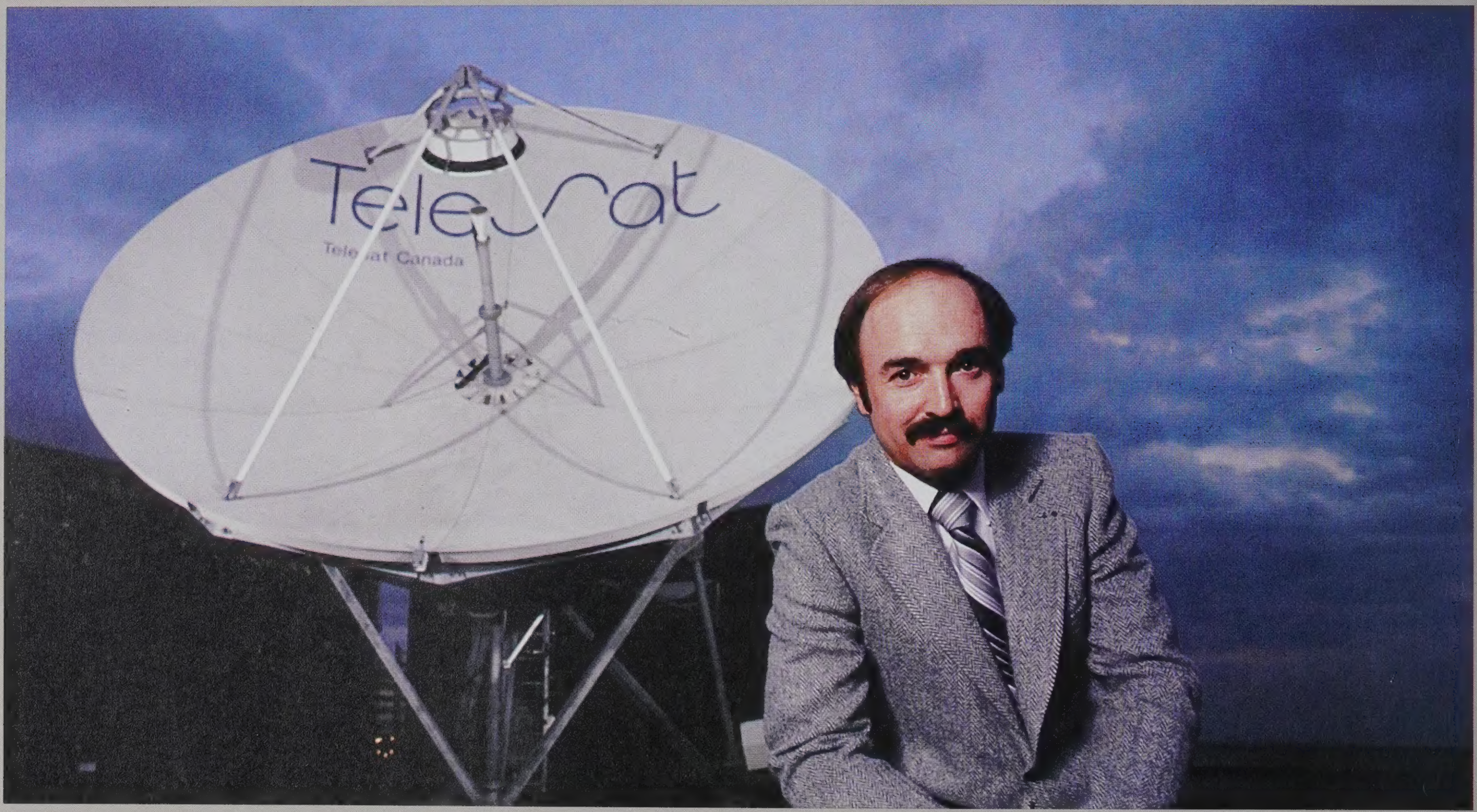






Continually changing customer needs necessitate constant effort to improve the quality of service and operational efficiency of Bell Canada's telecommunications system. Rod Hinrichs is responsible for integrating satellite transmission technology into the company's toll network, to ensure the provision of efficient national telecommunications.

The company maintains a policy of providing the best possible service to its customers by introducing new technologies which bring service improvements. The modern Traffic Operator Position System (TOPS) office allows Hélène Foisy to better look after customer calls.



Review of Operations

Difficulties encountered in the U.S. portion of Northern Telecom's operations, continuing high inflation and a faltering economy combined to depress the level of 1980 consolidated earnings.

Financial results

Difficulties encountered in Northern Telecom's operations, particularly in the U.S., continuing high inflation and a faltering economy combined to depress the level of 1980 consolidated earnings from those recorded a year ago.

Consolidated income before extraordinary item in 1980 was $363.7 million, or $2.00 per common share, compared to $433.2 million, or $2.64 per share, the year before. After reflecting an extraordinary loss of $90.0 million, or $0.55 per common share, relating to write-offs by Northern Telecom in 1980, net income was $273.7 million or $1.45 per common share. More detail on Northern Telecom's results and activities can be found on pages 44 to 47 of this report.

The non-consolidated rate of return on average common equity for 1980 was 10.64 per cent compared to 11.51 per cent, before extraordinary item, a year earlier. The rate of return on average common equity calculated on the regulated basis as directed by the CRTC in its decision on the company's 1980 rate application was 11.07 per cent for 1980.

In January, as authorized by the Board of Directors, the company paid a quarterly common share dividend of $0.45 per common share, $0.04 higher than the dividend paid for the previous quarter. This was the eighth consecutive year that the dividend rate has been raised. The indicated annual dividend rate is currently $1.80.

Telecommunications operating revenues rose 13.7 per cent in 1980 as the result of some $140 million generated by the August rate award, along with a modest growth in demand for telecommunications services. Until mid-year, operating revenues had only increased by 7.5 per cent over the year before.

In contrast, by mid-year 1980 telecommunications operating expenses had grown by 17.5 per cent. By the end of 1980, the year-over-year growth in expenses had been reduced to 16.2 per cent, reflecting the impact of further efforts to curtail their growth. Employee-related expenses resulting principally from higher wages, depreciation, and higher prices for materials and supplies accounted for the major portion of this increase.

To meet the company's capital requirements, some $400 million and US $200 million were raised in the Canadian and United States capital markets in 1980.

Financing

To meet the company's capital requirements, some $400 million and US $200 million were raised in the Canadian and United States capital markets in 1980. In April, $200 million was raised by the sale of convertible voting preferred shares in Canada. Ten million shares were issued and priced at $20, offered at par to yield 10.25 per cent. The preferred shares are convertible until April 1992 into Bell Canada common shares on a share for share basis. In July, the company sold $200 million, 10½ per cent, five-year debentures in Canada and in September, US $200 million, 13⅜ per cent, thirty-year debentures in the United States. Both issues were well received by investors.

Participation in the company's Shareholder Dividend Reinvestment and Stock Purchase Plan continued to increase in 1980 producing some $83 million in new equity. Some 55,400 common shareholders, representing approximately 21.5 per cent of the total and 22.7 per cent of common shares outstanding, were enrolled in the plan as of January 16, 1981. Under this plan, dividends on Bell Canada common shares can be reinvested in additional common shares at a five per cent discount from their market price and optional cash payments can be made to a maximum of $3,000 per quarter at 100 per cent of market price.

An Optional Stock Dividend Program, which is of particular interest to Canadian shareholders who are in a high tax bracket or to certain non-residents, excluding those subject to U.S. taxation, was introduced in July 1980 and became effective with the quarterly common dividend paid in October 1980. The program was established to assist those shareholders able to take advantage of the significant differences in the tax treatment, under Canadian laws, of cash dividends and stock dividends. Under this program, holders of Bell Canada common shares receive dividends in the form of additional common shares having a market value equivalent to the corresponding cash dividend.

Inflation accounted for virtually all of the increase in Bell's capital expenditures.

Capital expenditures

Bell Canada's capital expenditures amounted to $1,297.0 million in 1980 compared to $1,116.7 million a year earlier, with inflation accounting for virtually all of the increase. In terms of constant 1971 dollars, the level of construction expenditures has remained relatively unchanged since 1974.

Non-Urban Service Improvement (NUSI) was one of the largest single items in the construction program.

One of the largest single items in the construction program was $185 million spent on Non-Urban Service Improvement (NUSI). This activity is designed to extend and improve telecommunications services in rural areas. The additional revenues generated by this activity, however, are totally inadequate to cover the necessary expenditures which must be absorbed by the company and its subscribers as a whole. The total cost of NUSI will exceed $800 million by the time it is completed in 1981.

About 64 per cent of capital spending for 1980 was required to meet requests for a wide variety of telecommunications services including the relocation of telephones for customers who had moved during the year.

Some 2,245,700 telephones were connected and 1,924,700 disconnected during 1980, for a net gain of 321,000 telephones. About 13 connections and disconnections were made for each revenue-producing telephone added to the network.

Programs, including a portion of NUSI, switching modernization, Phonecentre™/ Téléboutique™ activities and operator switchboard modernization absorbed some 16 per cent of capital expenditures. This portion of capital spending is expected to decrease over the next few years with completion of some of these programs.

Approximately 15 per cent of the construction program was allocated to "support" activities, primarily relating to the purchase and construction of administration buildings.

The balance of the capital spending program was used mainly for the replacement of plant that was worn out, damaged or had to be moved because it interfered with construction activities of outside parties.

Bell Canada anticipates capital expenditures of approximately $1.4 billion in 1981, an increase of some $100 million from 1980. Inflation alone is expected to add $129 million to the 1981 program.

Continued installation of more sophisticated equipment, expansion of existing programs and implementation of new systems are representative of the company's efforts to improve the quality of service.

Modernization

Installation of Digital Multiplex Systems (DMS™) continued during the year. A total of 17 DMS-10 units was installed in Ontario and Québec during 1980. The DMS-10 is a small digital central office switch with a capacity of a few hundred to 12,000 lines. The first DMS-10 SDO (Small Dial Office) unit in Bell Canada territory went into operation in February 1980 at Broughton Island (near Baffin Island). Seventeen others were installed in remote areas during the year including two in the Far North. Offices equipped with a DMS-10 SDO have a capacity of 500 lines and can be linked directly to a satellite ground station for long distance communication. Installation of eight more units is planned for 1981.

During 1980, Sherbrooke, Que., Oshawa, Ont. and Toronto were sites for installation of DMS-100, a 100,000-line capacity local switch. In Toronto and in Kitchener, Ont., DMS-200 toll switch units with an ultimate capacity of 60,000 trunks were placed in service during the year. A total of eight toll DMS switching machines are to be installed in the company's territory by the end of 1983.

Conversion to mechanized directory assistance records (MDAR) started in Toronto and in Montréal in the latter part of the year. MDAR is more cost effective than the current method, effectively combining the operator's knowledge of the directory with the speed and accuracy of computer devices. The new system replaces paper information directories and daily update lists by visual display screens and keyboards which are connected to a mini-computer. Conversion of the four Montréal and five Toronto offices is scheduled to be completed in early 1981.

Expansion of the Traffic Operator Position System (TOPS™) program, which permits faster, more economical handling of operator-assisted long distance calls, continued during 1980. Throughout the company's territory, more than 57 per cent of customers are now served by TOPS. That number is expected to grow to 71 per cent by the end of 1981.

Several new products for business and residence customers were introduced during the year, providing subscribers with an increasing choice of equipment to meet their needs.

New products

Several new products for business and residence customers were introduced during the year. One of them, the SM-1™, is a full-featured key telephone system which can accommodate up to 55 telephones and offers features which were previously only available on large PBX systems. Another one, Vantage 12™, is an electronic key telephone system for small businesses. With a capacity of six lines and 12 telephones, the system offers some 40 features, including three-party conferencing, direct-access intercom and on-hook dialing.

Striving for quality is both a corporate objective and a personal commitment on the part of Bell employees. This goal is ably reflected in the efforts of Ann Lemire, who directs, among other activities, the operation of the programmers responsible for the 1,500 computer programs associated with shareholder records, ensuring that shareholder needs are met as quickly as possible; of Denis Lefebvre, who operates a local switching office which uses the latest DMS-100 digital technology; of Hans Dinger, who shares his telecommunications knowledge and experience with members of the Saudi Telephone Company; and of Rosa Schachter, who ensures that the records of those Bell Canada shareholders who are enrolled in the dividend reinvestment plan are kept up to date.

Bell's Building Industry Consulting Services (BICS), represented here by Don Whitehead, save time, effort and money for Bell and for the builders of large commercial and residential buildings who ask on-the-spot guidance in the design and installation of necessary telecommunications systems before and during construction.

Field trials of three versions of the Bell Prelude™ electronic telephone started in November in Ottawa, Brampton and Windsor. The Prelude electronic sets are enhanced versions of the newly-introduced basic electronic telephone, the product of an extensive research and development program started by Bell-Northern Research in 1974.

A field trial of Vista will start later this year in Toronto and Québec City.

A field trial of Vista™, Bell's trade name for videotex, will start later this year and continue through 1982 in Toronto and Québec City. By connecting telephone lines to television sets, videotex will offer an interactive visual service with a choice of computer-based information in graphics and text. The federal Department of Communications will contribute significantly to the Vista trial through the loan of computer and terminal hardware, and systems software. The trial will utilize 500 consumer terminals designed by Bell-Northern Research and manufactured by Northern Telecom. These terminals will use DOC developed Telidon technology, which offers more flexible and defined graphics than other world videotex systems.

Trial participants will have access to multiple computer data bases offering messaging, shop-at-home transactions and information packages such as consumer reports, educational courses, entertainment reviews and electronic yellow pages.

Competitive activities

Although competition is becoming increasingly active, it is not a new phenomenon at Bell.

Although competition is becoming increasingly active it is not a new phenomenon at Bell. In 1972, the company established the Computer Communications Group™ (CCG) to represent the company and support the TransCanada Telephone System (TCTS) in the fast-growing data communications market.

Dataroute™, the world's first nationwide digital transmission network, was further expanded in 1980. The addition of eight new Dataroute serving areas to bring the total to 47, effectively extended digital technology to businesses in virtually any location across the country.

The growth of Datapac™ and its product and service line has been equally dramatic. Recently approved by the CRTC is Datapac 3304, a new access service to the TCTS packet switched data network. This service provides users with lower communications costs, better utilization of computer resources and the reliability of the Datapac network. Also in 1980, another new access service, Datapac 3305, was announced by TCTS and proposed rates filed with the CRTC and provincial regulatory bodies. Datapac international overseas service, which received interim approval, met a definite communications need for customers with world-wide business.

CCG also intends to become more aggressive in the "messaging" market. This includes developments such as Envoy 100™, a new public store-and-forward messaging service which will be available from coast-to-coast in mid-1981. Envoy 100 is the first offering in a family of competitive message services CCG intends to introduce to the Canadian business community in the 1980's.

In 1980, several steps were taken which supported the company's intention to compete vigorously for its share of the telecommunications equipment market.

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In conjunction with members of the TransCanada Telephone System, the company established intelTerm Systems Limited, a subsidiary providing information systems, products and support services for the Canadian data market. The new company offers a related family of terminals and specialized services for the converging markets of word processing, intelligent terminals and small business computers.

Outright sale of telephone sets began in Phonecentres/Téléboutiques in October. Sets continue to be offered on a rental basis. Customers who owned telephone set housings but rented the working parts, can now purchase these as well.

Bell Communications Systems Inc. was formed in September, a full service marketing organization engaged in the sale, installation and maintenance of a complete range of interconnect telephone systems for the business community in the provinces of Québec and Ontario.

Terminal connection

In what has been identified as an interim decision, the CRTC has opened the terminal equipment portion of Bell Canada's business to outside competitors. While the company has long been on record as favouring the introduction of the right of connection of customer-owned equipment to its network, subject to a number of conditions, Bell asked the CRTC, on November 13, 1979, to decide whether it would be in the public interest if customers were allowed to connect their own telephone equipment to Bell's facilities. The CRTC responded on August 5, 1980, with an

interim decision which permits the fairly broad connection of terminal equipment which meets certain standards. The company understands that the CRTC plans to hold a public hearing on this issue in 1981.

The government of Ontario petitioned the federal cabinet to revise the interim decision, to ensure that foreign manufacturers not be allowed unrestricted entry into Canadian telecommunications markets unless there are reciprocal rights for Canadian manufacturers to enter foreign markets. On September 26, Bell Canada wrote to the federal cabinet in support of the position taken by the government of Ontario.

Rate application

In February, Bell Canada applied to the CRTC for approval of a general rate increase.

On February 12, 1981, Bell Canada applied to the Canadian Radio-television and Telecommunications Commission for approval of a general rate increase to be effective September 1, 1981. The proposed rates would produce additional revenues of some $183 million in 1981 and some $550 million for the complete year 1982, approximately 14 per cent more than presently estimated revenues for that year. The additional revenues are required by the company to cover higher costs in providing service, equipment and facilities to its customers and to permit shareholders to earn a higher rate of return on their investment.

Over the next five years Bell estimates that its construction expenditures will total some $7 billion. If capital is to be obtained on reasonable terms, investors must be satisfied that the company will achieve adequate earnings and maintain satisfactory financial ratios. The company's reputation has helped to maintain, to a certain degree, investor confidence despite the disappointing financial results for 1980.

In its 1980 general rate application, Bell said the permitted 12 per cent rate of return on common equity represented an inadequate level. The company also stated, however, that in the short term and in order to minimize the inflationary effects of the rate increase which would have been required to permit a higher, yet reasonable rate of return, it would endeavour to continue to operate within previously allowed rate of return levels by seeking only limited, short-term rate relief.

In its August 1980 decision the CRTC awarded the company rates which produced some $140 million of additional revenues in 1980 and are expected to generate approximately $376 million in 1981. The CRTC estimated its award was consistent with a 12 per cent return on average common equity. However, the Commission also included in the company's revenues, for purposes of regulatory calculations, amounts which either do not represent actual dollars received by the company or were not generated from telecommunications operations in Canada. The Commission required Bell to assume for regulatory purposes that it receives a 15 per cent return on the cost of its investment in Northern Telecom. The Commission also required Bell to include net income from the Saudi Arabia contract and amounts from such diverse enterprises as the selling of yellow pages advertising in the United States and Australia, and subsequently, in September 1980, from the earnings of one of the largest commercial printing businesses in Canada.

Considering the current cost of capital it is no longer reasonable to be limited by a 12 per cent rate of return.

Considering the current cost of capital and recent changes in the business, it is no longer reasonable to be limited by a 12 per cent rate of return. Accordingly Bell has requested the approval of rates which it is estimated will enable the company to earn a rate of return on average common equity in 1982, on the basis of regulation set by the CRTC, of 14 3/4 per cent, and within a range of 14 1/2 to 15 per cent.

Vertical integration

A wide-ranging inquiry into the manufacture, supply and sale of telecommunications systems and equipment in Canada is being held by the Restrictive Trade Practices Commission (RTPC). Hearings have taken place in all 10 provinces since June 1977, in which nearly 150 witnesses, representing some 33,000 pages of testimony, have already been heard.

Presentation of the Bell/Northern Telecom case began January 16, 1980. Seventeen witnesses have appeared including officers of Bell, Northern Telecom and Bell-Northern Research. Argument on that part of the inquiry dealing with the terminal attachment issue began September 23 and continued until the end of 1980. The hearings are expected to end in early fall.

The Bell-Northern relationship has served the national interest well, placing Canada in the forefront of technology.

The company's fundamental position is that the Bell-Northern relationship has placed Canada in the forefront of technology. The recognition by the international community, which seeks our expertise, is evidence that the existing relationship has served the national interest well, producing jobs, making possible high quality serv-

The special needs of people whose physical disabilities make it difficult or impossible for them to use conventional telecommunications equipment and services are cared for by Vicki Tonello at one of Bell Canada's Special Needs Centres.

Provision of telecommunications service requires many types of equipment and an effective inventory control system is essential to a smooth operation. Statistician Bruce Switzer is conducting a study of Bell's existing computerized inventory control system with the objective of making management of materiel even more efficient and economical.

Bell's status as a regulated monopoly brought with it an obligation to serve the non-urban and remote locations in its territory in addition to the more densely populated urban centres of the South.

Linesman Michel Blanchette displays the sense of pride and accomplishment that comes with doing the job well.

The company has pointed out the potential danger of unrestricted entry into Canada of foreign telecommunications terminal equipment.

ice at reasonable cost, creating an internationally competitive telecommunications manufacturing company and providing a positive contribution to Canada's balance of payment position. The company has also pointed out to the Commission the potential danger to the Canadian telecommunications industry of unrestricted entry into Canada of telecommunications terminal equipment manufactured by those foreign multinationals whose domestic markets are protected against outside competition.

Acquisition
Tele-Direct, a Bell Canada subsidiary, purchased in the third quarter the controlling interest in Ronalds-Federated Limited, one of Canada's foremost commercial printers. Ronalds-Federated has historically printed a majority of the telephone directories published by Tele-Direct. Ronalds-Federated operates from 14 printing plants in Québec, Ontario, Alberta and British Columbia.

Contract and other operations provided a solid contribution to consolidated earnings in 1980, reflecting generally higher contract activity, particularly in Saudi Arabia.

International consulting
Contract and other operations provided a solid contribution to consolidated earnings in 1980, reflecting generally higher contract activity, particularly in Saudi Arabia. Since the December 1977 start of the company's five-year contract with the Saudi Arabian Ministry of Post, Telegraph and Telephone, the Bell project team and its contract partners, Philips of the Netherlands and L.M. Ericsson of Sweden, have contributed much toward making the rapid growth and improvement of Saudi Telephone unparalleled in the world.

In three years, switching capacity increased by more than 400,000 lines from 190,000; the volume of international calls rose five-fold to more than one million a month and nearly 20 per cent of those calls were being customer-dialed; the number of working telephones increased to more than 350,000 from 126,000; where almost no coin telephones had existed, more than 1,500 are in service with each one averaging the equivalent of 3,300 local calls per month.

The vast construction program which Bell Canada has undertaken for the Ministry of PTT, in addition to the operations and maintenance contract, has shown considerable progress during the year. The Saudi Telephone Data Centre, in Riyadh, the most modern computer centre in the Middle-East, was formally handed over to the Ministry in January 1980. The contract calls for administrative, servicing and residential facilities in eight centres involving the construction of 347 buildings.

In 14 other countries in Europe, South America, Asia, Africa, North America and the Caribbean Islands, Bell Canada and its subsidiary, Bell Canada International, were involved in 26 contracts during the year. Foreign activities ranged from continuous consultation in Trinidad and Tobago on telecommunications operations, to management of a contract in northwest Africa for the Canadian International Development Agency, for construction of a five-nation microwave system.

Saudi telephone is a major success story which reflects credit on the Saudi Ministry and to Bell advisors.

All of these consulting activities represent considerable achievements, and Saudi Telephone is a major success story which reflects credit on the Saudi Ministry and its Bell Canada advisors. Although regulatory decisions have so far prevented shareholders, who bear the risk for this venture, from gaining a proportional amount of the reward, the company is encouraged by the federal cabinet's endorsement of its international business activities.

The company is also encouraged by the government's call for an early CRTC hearing to examine means of developing guidelines for an equitable sharing of the revenues from ventures such as Bell's contract with the Saudi Arabian Ministry. It is hoped that the CRTC will schedule a hearing on this issue at the earliest opportunity this year. The company looks forward to participating in these discussions which are expected to produce encouragement for Bell and other companies to continue seeking out profitable opportunities for the international use of Canadian technology and managerial skills.

Labour relations
At year-end Bell Canada had some 57,300 employees. Most of the approximately 41,600 non-management personnel were represented by two unions, the Canadian Telephone Employee's Association (CTEA) and the Communications Workers of Canada (CWC).

A new collective agreement covering Bell's operator services and dining service employees was reached after a prolonged period which included the certification of the CWC as bargaining agent for the group, in addition to negotiations, conciliation

and mediation. A two-month strike ended on March 30, 1980, when Bell Canada and its 7,200 operator services and dining service employees signed a three-year contract expiring November 24, 1981.

Following bargaining sessions spread over several months, the company and the CTEA reached agreement for a new one-year contract covering its 18,400 clerical and associated employees. After union members had voted in favour of the proposal, a contract expiring on November 30, 1981, was signed with the CTEA on December 3, 1980. Some 600 communications sales employees, also represented by the CTEA, are still negotiating a new contract. The previous one-year contract expired November 30, 1980.

The current three-year contract with the CWC covering the approximately 15,700 craft and services employees will expire on November 30, 1981.

Centennial

Bell Canada marked its centennial with a number of projects highlighting its tradition of community service.

In 1980, Bell Canada marked its centennial with a number of projects highlighting its tradition of community service. As part of that program, the company sponsored a series of 36 seminars in Ontario and Québec on the subject of learning disabilities. The purpose of the seminars was to make teachers and the public more aware of the problems of children with learning disabilities, and to provide them with an opportunity to meet with Canadian experts in the field.

More than 20,000 educators and parents attended these one-day seminars and public awareness meetings organized in collaboration with the Canadian, Ontario and Québec Associations for Children with Learning Disabilities. Video tapes of the seminars and a book summarizing the presentations are available to schools.

With the opening of two Telecommunications Centres for Special Needs, people who have special needs can get information and acquire special equipment and services.

Another event marking the company's centennial year was the implementation of the results from a Bell Canada study of the telecommunications needs of people with motion, hearing, speech and sight difficulties. As a result of this study, two Telecommunications Centres for Special Needs were established in 1980, one in Toronto and one in Montréal. By dialing a toll-free number, people located in the company's territory who have special needs can get information and acquire special equipment and services that will enable them to use the telephone. The centres are staffed by employees trained to handle requests from people with special needs.

Products available from the centres include the artificial larynx, voice-amplifying and volume-control handsets, the Visual Ear™, a portable teletypewriter enabling deaf and speech-impaired people to ''talk'' on the telephone via typed messages, and the "Directory of Aids", a list of 300 items available to people with special needs.

Among services now provided at minimum rates for handicapped persons are the artificial larynx, the hearing-impaired handset, the voice-amplifying set, and the Visual Ear. Lower long distance rates are extended to calls placed by operators on behalf of disabled individuals, as well as for disabled users of keyboard-type devices. Also the company has submitted a report to the CRTC recommending reductions of 25 to 50 per cent in monthly rates for products and services enabling disabled customers to use the telephone.

Since its founding 101 years ago, the company has made special efforts to serve the needs of the handicapped.

Since its founding 101 years ago, the company has made special efforts to serve the needs of the handicapped. Today, it employs disabled persons in a variety of jobs. A company task force is currently reviewing all aspects of employment, focusing on increasing awareness of the capabilities of disabled persons.

Again, in 1980 we were able to provide high quality service to our customers through the dedicated and effective efforts of our employees. Despite the extensive changes that are taking place in our operating environment, your management continues to believe that stable and satisfying employment for our employees is an essential objective.

Manufacturing

Manufacturing sales grew by $154.4 million, mainly on a $246.5 million increase in telecommunications equipment product sales.

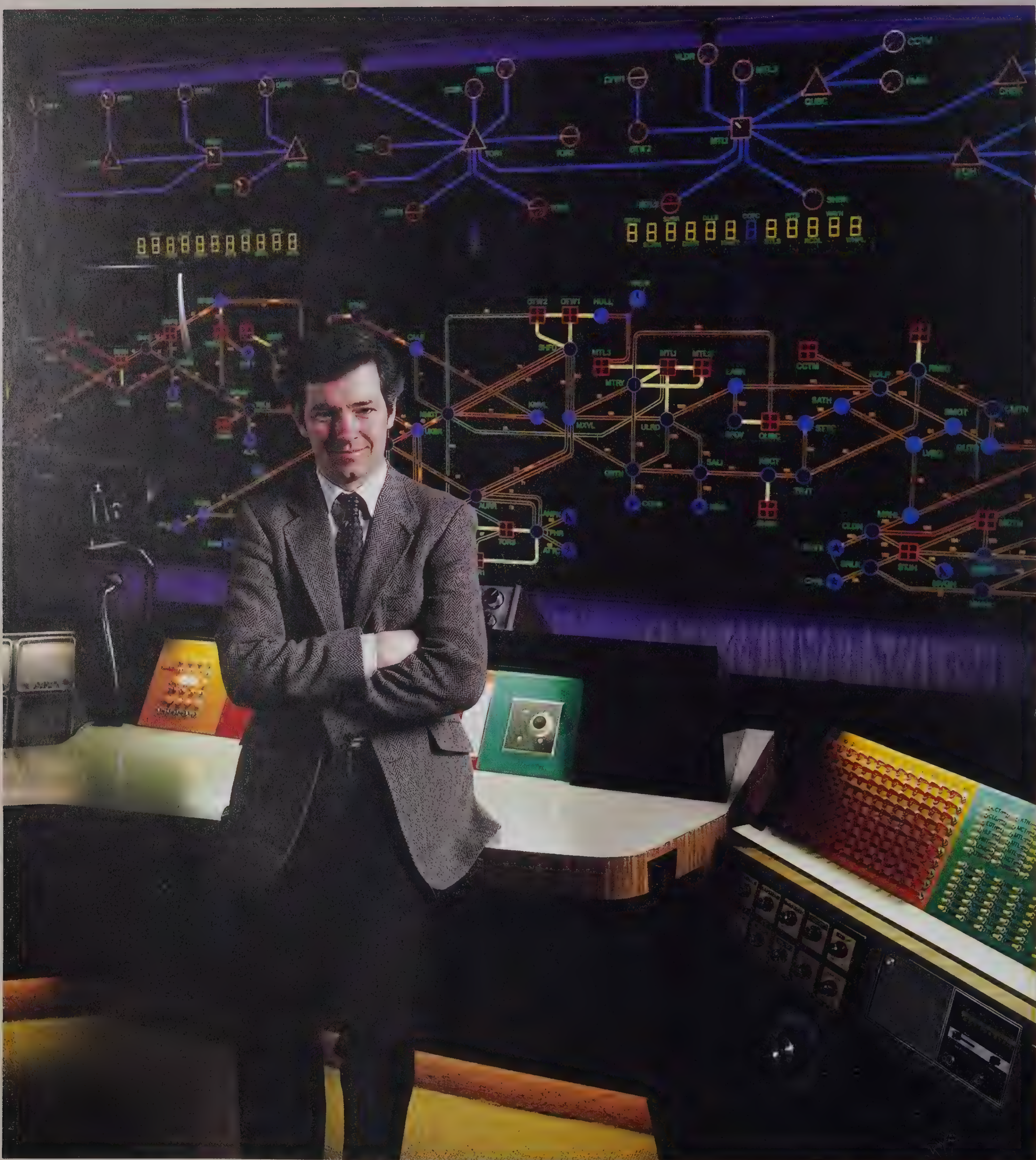
Manufacturing sales in 1980 grew by $154.4 million or 8.3 per cent, principally on a $246.5 million increase in telecommunications equipment product sales offset by a $90.8 million decline in revenues from the electronic office systems business. The major portion of the growth in telecommunications equipment came from sales of Northern Telecom's central office digital switching systems, mainly large DMS-100 Family switches.

Sales of subscriber apparatus and products such as the SL-1™ digital business communications system rose some 18 per cent in 1980. Sales in certain telecommunications product lines were inhibited by an uncertain economic climate.

All aspects of Bell's operation are closely monitored to effect improvement. For example, Louise Hamelin, of Budget and Results, through continuous tracking of the company's financial performance, provides the company with a valuable management tool.

Similarly, essential information about residence and business customers' changing requirements and their reactions to Bell's efforts to serve them well is gathered through periodic Customer Surveys, supervised by Solange Bouliane.

At the TransCanada Telephone System's network control centre in Ottawa, Bell employee Ron Kelly helps keep track of traffic loads on busy transcontinental circuits, and switches to alternate routes when necessary to ensure the best possible service. Keeping track of what's going on, and analysing and using the information to improve service, are essential parts of adapting to change.



Northern Telecom's order backlog continued to rise, particularly on the strength of demand for its digital products. The backlog value was $1,004 million at year-end, up from $874 million at the end of 1979.

There was a substantial decline in revenues from the electronic office systems business.

Offsetting these results, however, was a substantial decline in revenues from the electronic office systems business which had been formed by the acquisition of Sycor, Inc. and Data 100 Corporation in 1978. Revenues in 1980 from electronic office systems business declined sharply, in part because of a decision taken in the second quarter of 1980 to discontinue the sales of operating leases to third parties, a practice established by the predecessor companies, and the impact of various efforts to restructure that business.

Manufacturing results also reflected significantly higher costs for increased manufacturing capacity and production relating to new products, principally new digital switching systems. In addition efforts to integrate and restructure the electronic office systems business accounted for a significant portion of the increase in expenses.

As a result of the difficulties experienced in electronic office systems business, Northern Telecom recorded in its accounts an extraordinary loss of $164 million, comprised mainly of a goodwill and technology investment write-off of $106 million. The balance represents other expenses related to the discontinuance of certain elements of the electronic office systems business.

Northern Telecom continued to make inroads in various international markets.

In other dealings, Northern Telecom continued to make inroads in various international markets. Among the notable highlights were the formation of a jointly-owned marketing and manufacturing company in Mexico, to market and produce under licence such products as the SL-1, SM-1 for small businesses and Pulse™ electronic private automatic branch exchanges; the placing in service of the first major data packet switching network outside of North America using the SL-10 by the Deutsche Bundespost and sales of SL-10's in Belgium, Switzerland and to the U.S. Federal Reserve System.

Financial Statements

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Bell Canada and its subsidiaries have been prepared in accordance with Canadian generally accepted accounting principles which are in general consistent with those in the United States except for the differences identified in notes 1 and 17 of Notes to Financial Statements.

The integrity and objectivity of data in these financial statements are the responsibility of management. To this end, management maintains a highly developed system of internal accounting controls and supports an extensive program of internal audits.

Management believes that the system of internal accounting controls provides a reasonable assurance that:

–transactions are executed in accordance with management's general or specific authorization;

–transactions are recorded as necessary to permit the preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets;

–access to assets is permitted only in accordance with management's general or specific authorization; and

–the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

These financial statements have been examined by Touche Ross & Co., Chartered Accountants, and their report is shown below.

The Board of Directors pursues its responsibility for these financial statements principally through its Audit Committee which meets periodically with management as well as with the internal and the independent auditors who have full and free access to the Audit Committee, and meet with it, with and without management being present, to discuss auditing and financial reporting matters.

G. L. Henthorn
Vice-President & Comptroller

Auditors' Report

The Shareholders, Bell Canada

We have examined the consolidated balance sheets of Bell Canada as at December 31, 1980 and 1979 and the consolidated statements of income, retained earnings, premium on capital stock and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and 1979 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1980 in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Montréal, Québec
February 11, 1981

Consolidated Income Statement

For the years ended December 31

Thousands of dollars

		1980	1979	1978
Telecommunications operations	Operating revenues			
	Local service	$1,625,748	$1,449,713	$1,312,734
	Long distance service	1,624,847	1,413,937	1,223,314
	Miscellaneous – net	115,612	97,917	85,670
	Total operating revenues	3,366,207	2,961,567	2,621,718
	Operating expenses	2,497,561	2,150,083	1,865,958
	Net revenues – telecommunications operations	868,646	811,484	755,760
Manufacturing operations	Sales (note 1)	2,018,545	1,864,160	1,469,997
	Cost of sales	1,515,369	1,269,737	998,569
	Selling, general, administrative and other expenses	482,390	412,591	326,759
		1,997,759	1,682,328	1,325,328
	Net revenues – manufacturing operations	20,786	181,832	144,669
Contract and other operations	Operating revenues	652,332	439,012	282,640
	Operating expenses	516,754	339,048	237,253
	Net revenues – contract and other operations	135,578	99,964	45,387
	Total net revenues	1,025,010	1,093,280	945,816
	Other income			
	Allowance for funds used during construction	20,206	20,722	14,087
	Equity in net income of associated companies (note 2)	21,286	18,712	16,923
	Miscellaneous – net	31,169	33,675	18,106
	Total other income	72,661	73,109	49,116
	Interest charges			
	Interest on long term debt (note 3)	319,185	289,745	255,350
	Other interest	39,483	23,054	8,127
	Total interest charges	358,668	312,799	263,477
	Income before underlisted items	739,003	853,590	731,455
	Unrealized foreign currency losses (notes 1 and 17)	11,253	10,685	259
	Income before income taxes, minority interest and extraordinary items	727,750	842,905	731,196
	Income taxes (notes 3 and 4)	367,248	355,371	323,585
	Income before minority interest and extraordinary items	360,502	487,534	407,611
	Minority interest	(3,243)	54,348	37,049
	Income before extraordinary items	363,745	433,186	370,562
	Extraordinary items (note 5)	(90,015)	–	24,490
	Net income (note 17)	**273,730**	**433,186**	**395,052**
	Dividends on preferred shares	38,243	30,521	38,702
	Net income applicable to common shares	**$ 235,487**	**$ 402,665**	**$ 356,350**
	Earnings per common share* (notes 6 and 17)			
	before extraordinary items	$2.00	$2.64	$2.49
	after extraordinary items	$1.45	$2.64	$2.67
	Assuming full dilution			
	before extraordinary items	$1.98	$2.55	$2.36
	after extraordinary items	$1.45	$2.55	$2.52
	Dividends declared per common share	**$1.68**	**$1.55**	**$1.43**
	*Based on weighted average common shares outstanding (thousands)	162,762	152,810	133,396

The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated income statement are described and reconciled in note 17.

Consolidated Balance Sheet

As at December 31

		Thousands of dollars	
Assets		1980	1979
Telecommunications property – at cost (note 7)	Buildings, plant and equipment	$10,782,311	$ 9,741,337
	Less: Accumulated depreciation	3,262,923	2,950,562
		7,519,388	6,790,775
	Land	86,975	65,153
	Plant under construction	290,075	270,089
	Material and supplies	109,485	128,971
		8,005,923	7,254,988
Manufacturing and other property – at cost (note 7)	Buildings, plant and equipment	919,261	680,274
	Less: Accumulated depreciation	377,169	274,868
		542,092	405,406
	Land	21,691	13,353
		563,783	418,759
		8,569,706	7,673,747
Investments	Associated companies and non-consolidated subsidiaries – at equity (note 1)	495,375	417,403
	Other	4,673	4,832
		500,048	422,235
Current assets	Cash and temporary cash investments – at cost (approximates market)	211,663	95,286
	Accounts receivable – principally from customers including $6,070 (1979 – $5,903) from associated companies, and less $18,094 (1979 – $8,578) for provision for uncollectibles	1,061,340	1,060,145
	Inventories (note 8)	574,444	492,539
	Other (principally prepaid expenses)	128,888	106,519
		1,976,335	1,754,489
Other assets	Cash and temporary cash investments held for contract operations – at cost (approximates market)	66,450	49,532
	Long term receivables	33,143	41,296
	Deferred charges		
	contract operations	47,174	90,583
	unrealized foreign currency losses, less amortization	160,923	131,780
	other	60,567	93,688
	Cost of shares in subsidiaries in excess of underlying net assets, less amortization (note 1)	34,700	119,163
		402,957	526,042
	Total assets	**$11,449,046**	**$10,376,513**

On behalf of the Board of Directors:

Marcel Bélanger
Director

Louise B. Vaillancourt
Director

Liabilities and Shareholders' Equity		Thousands of dollars 1980	1979
Capital stock authorized (note 9)			
Common shareholders' equity	Common shares (note 10)	$ 1,394,189	$ 1,320,647
	Premium on capital stock	898,098	807,778
	Contributed surplus	15,290	15,290
	Retained earnings	1,155,726	1,198,384
		3,463,303	3,342,099
Convertible preferred shares (redeemable) (note 11)		345,653	216,718
Non-convertible preferred shares (redeemable) (note 11)		108,390	112,255
Minority interest in subsidiary companies	Preferred shares	28,939	30,324
	Common shares	362,978	437,417
		391,917	467,741
Long term debt (including unrealized foreign currency losses) (note 12)		4,312,293	3,675,103
Current liabilities	Accounts payable	795,502	570,956
	Advance billing for service	69,444	52,445
	Dividends payable	85,069	72,540
	Taxes accrued	37,388	73,433
	Interest accrued	98,884	78,875
	Debt due within one year (note 13)	274,459	306,086
		1,360,746	1,154,335
Deferred credits	Income taxes	1,203,510	1,066,749
	Other (note 15)	263,234	341,513
		1,466,744	1,408,262
Commitments and contingent liabilities (notes 7 and 15)	**Total liabilities and shareholders' equity**	**$11,449,046**	**$10,376,513**

G.L. Henthorn
Vice-President & Comptroller

Consolidated Statement of Premium on Capital Stock

For the years ended December 31

			Thousands of dollars
	1980	1979	1978
Balance at beginning of year	$ 807,778	$ 607,388	$ 527,143
Premium on common shares issued during the year			
Under the Shareholder Dividend Reinvestment and Stock Purchase Plan	46,251	38,021	16,683
Under the Employees' Savings Plan (1966)	3,991	3,503	2,788
Underwritten issue	–	120,703	–
Upon conversion of preferred shares	39,213	38,163	60,774
Under the Optional Stock Dividend Program	865	–	–
	90,320	200,390	80,245
Balance at end of year	$ 898,098	$ 807,778	$ 607,388

Consolidated Statement of Retained Earnings

For the years ended December 31

			Thousands of dollars
	1980	1979	1978
Balance at beginning of year	$1,198,384	$1,041,075	$ 882,537
Net income	273,730	433,186	395,052
Excess of par value over cost of preferred shares purchased for cancellation (note 11)	341	37	4
	1,472,455	1,474,298	1,277,593
Deduct:			
Dividends			
Preferred shares			
$3.20 shares	334	384	634
$3.34 shares	246	316	645
$4.23 shares	590	1,474	7,352
$2.28 shares	2,042	5,316	11,390
$1.96 shares	11,145	13,478	9,060
$2.05 shares	14,569	–	–
$2.25 shares	3,092	3,253	3,321
$1.80 shares	6,225	6,300	6,300
	38,243	30,521	38,702
Common shares	274,884	240,571	193,113
	313,127	271,092	231,815
Expenses of issues of capital stock	3,602	4,822	4,703
	316,729	275,914	236,518
Balance at end of year	$1,155,726	$1,198,384	$1,041,075

Consolidated Statement of Changes in Financial Position

For the years ended December 31

		1980	1979	1978
				Thousands of dollars
Source of funds	Operations			
	Income before extraordinary items	$ 363,745	$ 433,186	$ 370,562
	Items not affecting current funds			
	Depreciation	732,320	646,970	550,058
	Deferred income taxes	129,554	132,849	101,516
	Allowance for funds used during construction	(20,206)	(20,722)	(14,087)
	Equity earnings in non-consolidated finance subsidiaries	(58,178)	(21,473)	–
	Other – net	(23,740)	34,020	52,656
	Total from operations exclusive of extraordinary items	1,123,495	1,204,830	1,060,705
	Extraordinary items (net of non-fund items)	(57,328)	–	24,490
	Proceeds from long term debt	767,878	575,524	579,558
	Issue of common shares			
	underwritten issue	–	194,109	–
	under the Dividend Reinvestment and Stock Purchase Plan	83,037	64,125	30,134
	under the Optional Stock Dividend Program	1,510	–	–
	upon conversion of convertible preferred shares	71,064	74,044	125,820
	Proceeds from issue of preferred shares	196,757	–	170,903
	Proceeds from issues of shares by subsidiaries to minority shareholders	13,412	97,792	96,724
	Advance payment on contract operations	–	–	190,587
	Decrease in cash and temporary cash investments held for contract operations	–	42,319	–
	Miscellaneous	72,744	192,423	117,138
		$2,272,569	$2,445,166	$2,396,059
Disposition of funds	Capital expenditures			
	Gross capital expenditures	$1,598,203	$1,351,044	$1,183,972
	Deduct: charges not requiring funds	(16,529)	(13,396)	(24,395)
	Increase (decrease) in material and supplies	(19,486)	21,225	4,939
	Net expenditures	1,562,188	1,358,873	1,164,516
	Dividends by Bell Canada	313,127	271,092	231,815
	Dividends by subsidiaries to minority shareholders	19,925	15,546	11,508
	Reduction of long term debt	177,780	428,758	246,018
	Due to non-consolidated finance subsidiaries	8,585	(165,957)	(79,421)
	Acquisition of investments (less working capital acquired in 1980 of $10,656) (1978 – $107,427)	25,059	2,848	189,294
	Investments in non-consolidated finance subsidiaries	10,649	233,835	23,712
	Conversion of preferred shares	71,065	74,047	125,848
	Increase in cash and temporary cash investments held for contract operations	16,918	–	91,851
	Deferred charges – contract operations	–	–	112,912
	Miscellaneous	51,838	16,222	27,947
	Increase in working capital	15,435	209,902	250,059
		$2,272,569	$2,445,166	$2,396,059
Working capital changes	Increase (decrease) in current assets:			
	Cash and temporary cash investments	$ 116,377	$ (133,700)	$ 98,738
	Accounts receivable	1,195	286,649	350,682
	Inventories	81,905	131,137	142,965
	Other	22,369	28,642	23,630
	(Increase) decrease in current liabilities:			
	Accounts payable	(224,546)	(93,125)	(157,131)
	Advance billing for service	(16,999)	(2,828)	(6,987)
	Dividends payable	(12,529)	(11,651)	(10,676)
	Taxes accrued	36,045	37,446	(90,671)
	Interest accrued	(20,009)	(7,378)	(15,336)
	Debt due within one year	31,627	(25,290)	(85,155)
	Increase in working capital, as above	$ 15,435	$ 209,902	$ 250,059

Notes to Financial Statements

Bell Canada and Subsidiary Companies

1. Accounting policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all figures are in Canadian dollars. These statements conform in all material respects with International Accounting Standards. With respect to the consolidated financial statements of Bell Canada and its subsidiary companies, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 17.

Bell Canada and its telephone subsidiary and associated companies are subject to regulation, including examination of accounting practices, by their respective regulatory authorities. Bell Canada is regulated on the basis of its non-consolidated financial statements in which its investments in subsidiary and associated companies are carried at cost. The system of accounts and accounting practices are similar to those being used in the telecommunications industry.

Consolidation
The consolidated financial statements include the accounts of all, directly or indirectly, majority-owned subsidiaries except for finance subsidiaries of Northern Telecom Limited. These non-consolidated finance subsidiaries and the investments in associated companies (50% or less, and 20% or more) are accounted for by the equity method. The finance subsidiaries are not consolidated as their business is fundamentally different from that of the consolidated group (see note 3).

The associated companies of Bell Canada and its subsidiaries at December 31, 1980 were Maritime Telegraph and Telephone Company, Limited,(1) The New Brunswick Telephone Company, Limited, Telesat Canada, Sotel Inc., Intersil, Inc.(2) and Edward H. O'Brien Pty. Limited.

The companies in which Bell Canada had a direct investment of more than 50% of the common shares outstanding at December 31, 1980 were:

Northern Telecom Limited	54.7%
Newfoundland Telephone Company Limited	65.4
Northern Telephone Limited	99.8
Télébec Ltée	100
Lièvre Valley Telephone Company	100
The Capital Telephone Company Limited	100
The North American Telegraph Company	100
Bell Canada – International Management, Research and Consulting Ltd.	100

The excess of cost of shares over acquired equity (goodwill) is being amortized to earnings over periods not exceeding forty years. Such amortization amounted to $2,769,000 in 1980 ($4,128,000 – 1979, $4,142,000 – 1978). In addition, $89,412,000 representing the unamortized excess of cost of shares over acquired equity, related to the acquisition of Sycor, Inc. and Data 100 Corporation, was fully written off in 1980 (see note 5).

Bell Canada's summarized income statement, balance sheet and statement of changes in financial position, on a non-consolidated basis, are presented on pages 41 to 43.

(1) At December 31, 1980, Bell Canada was the registered owner of 2,172,200 or 37.1% of the outstanding common shares of Maritime Telegraph and Telephone Company, Limited; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.
(2) The investment in that company was sold on February 3, 1981.

1. Accounting policies (continued)

Consolidation (continued)
Manufacturing sales comprise:

	Thousands of dollars		
	1980	1979	1978
Sales to:			
Bell Canada	$ 630,895	$ 616,006	$ 536,684
Telephone subsidiary and associated companies of Bell Canada	55,287	43,522	50,694
Sub-total	686,182	659,528	587,378
Sales to others	1,332,363	1,204,632	882,619
Total sales	$2,018,545	$1,864,160	$1,469,997

Telecommunications equipment, purchased by Bell Canada and its telephone subsidiaries from Northern Telecom Limited and its subsidiaries, is reflected in the consolidated balance sheet at cost to the purchasing companies, and is included in Manufacturing sales in the consolidated income statement. To the extent that any income on these sales and those to associated companies has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed in the industry. All other significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

Depreciation
Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunications property is retired, the amount at which such property has been carried in Telecommunications property is charged to Accumulated depreciation.

Depreciation expense, including amortization of property held under capital leases, for the year ended December 31, 1980 was $732,320,000 ($646,970,000 – 1979, $550,058,000 – 1978) and the composite rate was 6.64% (6.55% – 1979, 6.33% – 1978).

Research and development
All research and development costs incurred, which amounted to $197,319,000 ($183,744,000 – 1979, $150,936,000 – 1978), were charged to income.

Translation of foreign currencies
Current assets (excluding inventories and prepaid expenses), current liabilities and long term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets (including inventories and prepaid expenses) and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year except for cost of inventories used, depreciation and amortization which are translated at rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year except for unrealized foreign currency gains and losses on long term monetary assets and liabilities which are amortized over the remaining lives of the related items.
In 1980, unrealized foreign currency losses charged to income were $11,253,000 ($10,685,000 – 1979, $259,000 – 1978), consisting of the amortization of $11,202,000 ($11,338,000 – 1979, $7,197,000 – 1978) of foreign currency losses on long term debt and $51,000 (gains of $653,000 – 1979, $6,938,000 – 1978) on the translation of foreign currency financial statements and net assets denominated in foreign currencies.

1. Accounting policies (continued)

Leases
Leases are classified as capital or operating leases. Assets recorded under capital leases are amortized on a straight line method using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

Inventories
Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction
Regulatory authorities require the telephone companies to provide for a return on capital invested in new telephone plant while under construction by including an allowance for funds used during construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Contract operations
Bell Canada provides consulting services under contract to clients, principally foreign telecommunications organizations. The accounting method generally known as percentage-of-completion is used in the determination of net income for such operations.

Income taxes
Bell Canada and its subsidiaries use the tax allocation basis of accounting for income taxes.

During 1980, $32,607,000 of tax benefits on a portion of the losses incurred in 1980 by foreign subsidiaries of Northern Telecom (54.7% owned by Bell Canada) have been recorded in the accounts and, on the consolidated balance sheet, are included in Current assets – Other. In the opinion of management, there is virtual certainty that these tax benefits will be realized in the year ending December 31, 1981. At December 31, 1980 foreign subsidiaries of Northern Telecom had tax loss carryforwards for accounting purposes of approximately $150,000,000, including $36,400,000 representing the tax deductible portion of the extraordinary items, which have not been recognized in the accounts and are available to reduce taxable income in future years. Of the total, $3,300,000 will expire if not used between 1981 and 1985, $136,800,000 will expire in 1987, while $9,900,000 can be carried forward indefinitely.

2. Equity in net income of associated companies

This item represents the share of net income of companies accounted for by the equity method, except for the finance subsidiaries (see note 3).

The dividends received from companies accounted for by the equity method amounted to $12,501,000 ($9,345,000 – 1979, $7,926,000 – 1978).

3. Non-consolidated finance subsidiaries

Income from operations of the finance subsidiaries of Northern Telecom Limited reduces consolidated interest on long term debt; unrealized foreign currency gains or losses and income taxes are included in the respective captions of the consolidated income statement. The following is a summary of the combined financial data of these companies which commenced operations in January 1979:

	Thousands of dollars	
	1980	1979
Interest income	$ 65,119	$ 32,934
Interest expense	(2,168)	(5,571)
Administrative expense	(1,951)	(635)
Income from operations	61,000	26,728
Unrealized foreign currency gains (losses)	6,013	(887)
Income taxes	(8,835)	(4,368)
Net income	$ 58,178	$ 21,473

	Dec. 31, 1980	Dec. 31, 1979
Total assets	$383,441	$289,461
Total liabilities	$ 35,594	$ 10,441
Shareholders' equity	$347,847	$279,020

4. Income taxes

A reconciliation of the statutory income tax rate in Canada to the effective income tax rate is as follows:

	1980	1979	1978
Statutory income tax rate	51.1%	48.9%	48.5%
i) Allowance for funds used during construction, net of applicable depreciation adjustment	(0.8)	(0.7)	(0.5)
ii) Reduction of Canadian Federal taxes applicable to manufacturing profits	(0.4)	(0.8)	(0.9)
iii) Equity in net income of associated companies	(1.5)	(1.1)	(1.1)
iv) Tax credits on research and development expenditures	(3.0)	(1.9)	(1.1)
v) Inventory credit	(0.5)	(0.3)	(0.3)
vi) Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(4.3)	(1.9)	(0.1)
vii) Effect of losses of foreign subsidiaries not recognized	9.2	–	–
viii) Other	0.7	–	(0.2)
Effective income tax rate	50.5%	42.2%	44.3%

Details of the company's income taxes are as follows:

	Thousands of dollars		
	1980	1979	1978
Income before income taxes, minority interest and extraordinary items			
Canadian	$718,804	$725,158	$670,704
Foreign	8,946	117,747	60,492
Total income before income taxes, minority interest and extraordinary items	$727,750	$842,905	$731,196
Income taxes			
Canadian	$348,410	$319,225	$298,211
Foreign	18,838	36,146	25,374
Total income taxes	$367,248	$355,371	$323,585
Income taxes			
Current	$270,301	$222,522	$222,069
Deferred	129,554	132,849	101,516
Recognized on losses of foreign subsidiaries	(32,607)	–	–
Total income taxes	$367,248	$355,371	$323,585

Deferred income taxes result principally from deductions for tax purposes, in respect of plant, being in excess of amounts currently charged to operations.

5. Extraordinary items

	Thousands of dollars	
	1980	1978
i) Write-offs by Northern Telecom in the fourth quarter of $163,759,000 relate to companies (Sycor, Inc. and Data 100) acquired in 1978 by Northern Telecom which have had unsatisfactory operating performance. These write-offs consist of a) $106,431,000 of unamortized goodwill and technology investments and b) $57,328,000 (net of income taxes of $3,241,000) relating to the discontinuance of certain elements of the electronic office systems business ($0.55 per common share). These write-offs are before deduction of minority interest of $73,744,000.	$(90,015)	$ –
ii) Reduction of income taxes, net of minority interest of $3,407,000, arising from the utilization of prior years' tax losses of subsidiaries ($0.06 per common share)	–	8,964
iii) Increase in book value in subsidiaries, reported on a consolidated basis, resulting principally from the issuance of common shares by Northern Telecom Limited upon the acquisition of Sycor, Inc. The Canadian practice is to include this increase as income whereas the practice in the United States is to treat it as paid-in capital ($0.13 per common share)	–	17,474
iv) Provision (net of income taxes of $3,648,000 and minority interest of $1,244,000) for costs of terminating the Canadian electrical and electronic products distribution business (Nedco Ltd. and Zentronics Ltd.) of Northern Telecom Limited ($0.01 per common share)	–	(1,948)
	$(90,015)	$24,490

6. Earnings per common share

Earnings per common share are based on weighted average shares outstanding. For the computation of the earnings per share, assuming full dilution, the dividends on convertible preferred shares have been added back to income.

7. Leases

Telecommunications property and Manufacturing and other property include property recorded under capital leases as follows:

	Thousands of dollars	
	Dec. 31, 1980	Dec. 31, 1979
Telecommunications property		
Buildings, plant and equipment	$38,712	$53,209
Less: Accumulated depreciation	13,373	14,067
	25,339	39,142
Land	3,350	3,350
	$28,689	$42,492
Manufacturing and other property		
Buildings, plant and equipment	$34,271	$24,982
Less: Accumulated depreciation	7,819	4,525
	$26,452	$20,457

7. Leases (continued)

The future minimum lease payments under capital leases, and operating leases that have initial non-cancellable lease terms in excess of one year as of December 31, 1980, are as follows:

	Thousands of dollars	
	Capital leases	Operating leases
1981	$ 15,062	$ 76,757
1982	13,362	61,786
1983	12,110	51,840
1984	10,880	42,928
1985	10,389	22,092
Thereafter	84,166	83,522
Total future minimum lease payments	145,969	$338,925
Less: Estimated executory costs	34,477	
Net minimum lease payments	111,492	
Less: Imputed interest	53,082	
Present value of net minimum lease payments	$ 58,410	

Rental expense applicable to all operating leases for the year 1980 was $121,646,000 ($107,370,000 – 1979, $92,846,000 - 1978).

8. Inventories

	Thousands of dollars	
	Dec. 31, 1980	Dec. 31, 1979
Raw materials	$190,298	$167,553
Work-in-process	196,524	164,697
Finished goods	187,622	160,289
	$574,444	$492,539

9. Capital stock authorized

By charter–$5,000,000,000.

By shareholders–$5,000,000,000 divided into common shares of the par value of $8⅓ each, and: (a) not more than 2,000,000 of a class of preferred shares to a maximum aggregate amount of $94,000,000; (b) not more than 9,000,000 of another class of preferred shares to a maximum aggregate amount of $225,000,000; (c) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $219,000,000; (d) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $175,000,000; and (e) ten additional classes of preferred shares to a maximum aggregate amount of $1,000,000,000.

10. Common shares

Outstanding		Dec. 31,1980		Dec. 31, 1979
	Number of shares	Amount	Number of shares	Amount
Par value of $8⅓ per share	167,302,740	$1,394,189	158,477,704	$1,320,647

Dollars in thousands

Number of common shares issued during the last three years are as follows:

	1980	1979	1978
For cash			
Under the Shareholder Dividend Reinvestment and Stock Purchase Plan	4,450,054	3,144,057	1,640,871
Under the Employees' Savings Plan (1966)	469,886	458,323	467,409
Underwritten issue	–	9,375,000	–
Upon conversion of preferred shares	3,822,103	4,305,681	7,805,451
Under the Optional Stock Dividend Program*	82,993	–	–
	8,825,036	17,283,061	9,913,731

*Under the Optional Stock Dividend Program, which became effective with the quarterly common dividend paid on October 15, 1980, shareholders may elect to receive dividends on common shares in the form of additional common shares.

Common shares reserved at December 31,1980 – 28,718,559:

8,765,018 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

703,387 shares for issuance under the Employees' Savings Plan (1966).

17,333,147 shares for issuance upon conversion of all convertible preferred shares.

1,917,007 shares for issuance under the Optional Stock Dividend Program.

11. Preferred shares

Dollars in thousands

	Outstanding		Dec. 31, 1980		Dec. 31, 1979
		Number of shares	Amount	Number of shares	Amount
Convertible preferred shares (redeemable)	$3.20 shares (par value of $47 per share)	100,102	$ 4,705	108,991	$ 5,123
	$3.34 shares, class B, series B (par value of $52 per share)	69,208	3,599	81,420	4,234
	$4.23 shares, class C, series D (par value of $47 per share)	98,254	4,618	259,179	12,181
	$2.28 shares, class C, series E (par value of $25 per share)	531,499	13,287	1,459,650	36,491
	$1.96 shares, class D, series G (par value of $25 per share)	4,779,266	119,482	6,347,552	158,689
	$2.05 shares, class E, series H (par value of $20 per share)	9,998,088	199,962	–	–
	Total par value of convertible preferred shares		$345,653		$216,718
Non-convertible preferred shares (redeemable)	$2.25 shares, class B, series C (par value of $30 per share)	1,343,000	$ 40,290	1,408,500	$ 42,255
	$1.80 shares, class B, series F (par value of $20 per share)	3,405,000	68,100	3,500,000	70,000
	Total par value of non-convertible preferred shares		$108,390		$112,255

During the three year period ended December 31, 1980 Bell Canada sold 10,000,000 $2.05 preferred shares of the par value of $20 each in 1980 and also sold 7,000,000 $1.96 preferred shares of the par value of $25 each in 1978.

11. Preferred shares (continued)

Following is a brief summary of the material characteristics of the preferred shares:

		Redeemable at Bell Canada's option	Preferred to common conversion basis	Convertible to	Number of shares converted at Dec. 31, 1980	Purchase fund requirements (d)
Convertible (a)	$3.20 shares	Currently at $48 per share to Feb. 1, 1981 and at reducing amounts thereafter to $47 after Feb. 1, 1982.	1 for 3	Feb. 1, 1982	1,899,898 including 1980 – 8,889 (1979 – 30,281) (1978 – 108,505)	–
	$3.34 shares	Currently at $53.50 per share to Aug. 1, 1981 and at reducing amounts thereafter to $52 after Aug. 1, 1983.	1 for 3	Aug. 1, 1983	1,930,792 including 1980 – 12,212 (1979 – 37,576) (1978 – 133,903)	–
	$4.23 shares	Currently at $51 per share to Dec. 1, 1981 and at reducing amounts thereafter to $47 after Dec. 1, 1986.	1 for 3	Dec. 1, 1986	1,901,746 including 1980 – 160,925 (1979 – 309,535) (1978 – 1,386,481)	98,254 shares in 1982
	$2.28 shares	On Jul. 2, 1981 at $27 per share to Jul. 2, 1982 and at reducing amounts thereafter to $25 after Jul. 2, 1987.	2 for 3	Jul. 2, 1987	4,468,501 including 1980 – 928,151 (1979 – 1,598,675) (1978 – 1,938,562)	Annually 250,000 shares commencing in 1983
	$1.96 shares	On May 1, 1984 at $26.50 per share to May 1, 1985 and at reducing amounts thereafter to $25 after May 1, 1990. (b)	5 for 6	May 1, 1990	2,220,734 including 1980 – 1,568,286 (1979 – 646,183) (1978 – 6,265)	Quarterly 87,500 shares commencing in 1986
	$2.05 shares	On April 15, 1986 at $21.50 to April 15, 1987 and at reducing amounts thereafter to $20 after April 15, 1992. (c)	1 for 1	Apr. 15, 1992	1,912 All in 1980	Quarterly 125,000 shares commencing in 1988
Non-convertible (a)	$2.25 shares	On Oct. 1, 1983 at $31.50 per share to Oct. 1, 1988 and at reducing amounts thereafter to $30 after Oct. 1, 2003.	–	–	–	Annually 51,000 shares
	$1.80 shares	On Oct. 2, 1986 at $21.20 per share to Oct. 2, 1991 and at reducing amounts thereafter to $20 after Oct. 2, 2006.	–	–	–	Quarterly 26,250 shares

(a) The preferred shareholders are entitled to cumulative dividends at the respective rates set out in the titles of each issue and have one vote per share.
(b) In the event that not more than 1,050,000 $1.96 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $25.
(c) In the event that not more than 1,500,000 $2.05 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $20.
(d) Purchase funds: Under the terms and conditions of the purchase funds, Bell Canada shall make all reasonable efforts to purchase the required number of shares for cancellation in the open market at a price not exceeding the par value per share plus costs of purchase. To the extent that Bell Canada is unable to purchase such shares, the undertaking is cumulative to a maximum of two years or eight quarters as the case may be, including the current period requirements. At December 31, 1980, 357,000 $2.25 preferred shares with an aggregate par value of $10,710,000 had been purchased and cancelled (including 65,500 shares with an aggregate par value of $1,965,000 during the year 1980 of which 14,500 shares were purchased for the year 1979).
At December 31, 1980, 95,000 $1.80 preferred shares with an aggregate par value of $1,900,000 had been purchased and cancelled. These shares were purchased in 1980 for the last three quarters of 1978 and the first two quarters of 1979.
Taking into account purchases to December 31, 1980, the maximum aggregate par value of shares that Bell Canada may be required to purchase, if available pursuant to the terms of the purchase funds, in the years 1981 to 1985 are $6,938,000, $8,248,000, $9,880,000, $9,880,000 and $4,417,000, respectively.

12. Long term debt

Bell Canada — Thousands of dollars

First mortgage bonds	4–5¾%	6–7⅞%	8–9⅞%	10–13⅜%	Total outstanding Dec. 31, 1980
Due 1981	$ 24,000	$ 28,500	$ –	$ –	$ 52,500
1982	90,000	–	–	–	90,000
1983	50,000	–	–	–	50,000
1984	60,000	–	–	–	60,000
1985	–	–	2,000	–	2,000
1986-1995	178,000	259,500	400,066	60,000	897,566
1996-2004	–	202,000	281,000	70,000	553,000
	402,000	490,000	683,066	130,000	1,705,066
Debentures					
Due 1985	–	–	–	200,000	200,000
1986-1987	–	100,000	60,000	60,000	220,000
2002-2010	–	–	750,000	371,600	1,121,600
	–	100,000	810,000	631,600	1,541,600
Other					
Mortgage (due in instalments to 1995–9% interest)					34,145
Promissory notes (due in 1990–12¾% interest)					22,000
Exchange premium less discount, at time of issue, on debt payable in U.S. funds					81,360
Unrealized foreign currency losses*					183,188
Obligations under capital leases					29,622
Sub-total – Bell Canada					3,596,981
Subsidiaries (including $255,894 due to non-consolidated finance subsidiaries and $28,788 of obligations under capital leases)					800,209
Unrealized foreign currency losses*					8,682
Sub-total – consolidated					4,405,872
Less: due within one year (including $19,101 due to non-consolidated finance subsidiaries)					93,579
Total – consolidated					**$4,312,293**

*Arising from the translation of U.S. dollar denominated debt at rate prevailing on December 31, 1980.

The first mortgage bonds of Bell Canada are secured by a first mortgage and a floating charge.

At December 31, 1980, the long term debt of Bell Canada payable in United States funds was $1,324,600,000 comprising $50,000,000 of first mortgage bonds maturing in 1983, $518,000,000 maturing from 1988 to 2004 and $756,600,000 of debentures maturing from 1986 to 2010.

At December 31, 1980, the amounts of long term debt payable by Bell Canada and subsidiary companies in the years 1981 to 1985 are $93,579,000, $176,955,000, $97,179,000, $108,163,000 and $267,768,000, respectively.

At December 31, 1980, the long term debt of non-consolidated finance subsidiaries of Northern Telecom Limited, due to third parties, was $17,907,000.

13. Debt due within one year

Thousands of dollars

	Dec. 31, 1980	Dec. 31, 1979
Long term debt	$ 93,579	$141,158
Notes payable	151,913	155,598
Bank advances	28,967	9,330
	$274,459	$306,086

14. Unused bank lines of credit

At December 31, 1980, unused short term operating bank lines of credit, generally available at the prime bank rate of interest, amounted to approximately $462,000,000.

15. Guarantees

Included in Deferred credits–Other at December 31, 1980 is the balance of $70,400,000 of advance payment to be applied against amounts due to Bell Canada over the life of certain contract operations. A guarantee, equivalent to approximately $101 million at December 31, 1980, has been furnished in respect of such advance payment.

In addition, a performance guarantee has been furnished, in respect of such contract operations, equivalent to approximately $63 million at December 31, 1980.

16. Quarterly financial data

Summarized consolidated quarterly financial data (in thousands of dollars except per share amounts) are as follows:

	Three months ended			
1980	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Operating revenues	$767,955	$796,915	$865,078	$936,259
Net revenues – telecommunications operations	170,441	170,808	252,725	274,672
Manufacturing operations				
Sales	477,188	551,824	466,640	522,893
Gross profit	141,403	130,751	126,343	104,679
Net revenues (losses) – manufacturing operations	33,498	10,528	15,150	(38,390)
Contract and other operations				
Operating revenues	139,757	138,440	167,661	206,474
Net revenues – contract and other operations	35,681	30,247	33,403	36,247
Income before extraordinary item	93,718	65,192	112,623	92,212
Net income	93,718	65,192	112,623	2,197
Net income (loss) applicable to common shares	87,175	54,923	101,746	(8,357)
Earnings per common share* before extraordinary item	$0.55	$0.34	$0.62	$0.49
Assuming full dilution before extraordinary item	$0.54	$0.34	$0.60	$0.49
*Based on weighted average common shares outstanding (thousands)	159,541	161,933	163,863	165,669

	Three months ended			
1979	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications				
Operating revenues	$711,219	$743,994	$736,825	$769,529
Net revenues – telecommunications operations	196,407	217,713	206,998	190,366
Manufacturing operations				
Sales	412,999	521,336	424,361	505,464
Gross profit	135,945	162,486	129,741	166,251
Net revenues – manufacturing operations	37,956	58,476	33,320	52,080
Contract and other operations				
Operating revenues	98,705	104,892	95,842	139,573
Net revenues – contract and other operations	23,284	22,629	27,801	26,250
Net income	103,491	118,660	106,831	104,204
Net income applicable to common shares	95,213	110,981	99,362	97,109
Earnings per common share*	$0.65	$0.72	$0.64	$0.62
Assuming full dilution	$0.63	$0.70	$0.62	$0.60
*Based on weighted average common shares outstanding (thousands)	145,495	153,604	155,201	156,790

17. Differences between Canadian and United States generally accepted accounting principles

a) Translation of foreign currencies

If the foreign currency translation had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 8: Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements, consolidated net income and earnings per common share would have increased (decreased) as follows:

	Increase (decrease) in consolidated net income	Increase (decrease) in earnings per common share
	Thousands of dollars except per share amounts	
Three months ended		
March 31, 1980	$(20,500)	$(0.13)
June 30, 1980	40,600	0.25
September 30, 1980	(16,400)	(0.10)
December 31, 1980	(24,400)	(0.15)
March 31, 1979	$ 27,000	$ 0.19
June 30, 1979	(5,600)	(0.04)
September 30, 1979	8,200	0.05
December 31, 1979	(4,900)	(0.03)
Year ended		
December 31, 1980	$(20,700)	$(0.13)
December 31, 1979	24,700	0.16
December 31, 1978	(76,900)	(0.58)

Consolidated net income as reported for the year 1980 of $273,730,000 ($433,186,000 – 1979, $395,052,000 – 1978) would have been $253,030,000 ($457,886,000 – 1979, $318,152,000 – 1978) and earnings per share as reported for the year 1980 of $1.45 ($2.64 – 1979, $2.67 – 1978) would have been $1.32 ($2.80 – 1979, $2.09 – 1978).

b) Extraordinary items

i) The extraordinary item of $90,015,000, reported in 1980, as described in note 5, does not meet the criteria of an extraordinary item under United States practice; consequently that amount would be deducted to determine income before extraordinary item for that year. Net income is identical under both Canadian and United States reporting practices.

ii) The extraordinary item of $17,474,000, reported in 1978, as described in note 5, has been included in income whereas the practice in the United States is to treat such an increase in book value as paid-in capital. If the extraordinary item had been treated in accordance with U.S. practice, consolidated net income for the year 1978 would have decreased by an additional $17,474,000 ($0.13 per common share) to $1.96 per common share.

c) Disposal of a segment of a business

Under United States practice, the disposal of a segment of a business requires different reporting; accordingly the amount $1,948,000, reported in 1978 as extraordinary item, would have been reported as discontinued operations. The manufacturing sales would be decreased by $138,637,000. However, net income and earnings per common share are identical under both Canadian and United States reporting practices.

18. Pensions

Bell Canada and most of its subsidiary companies have non-contributory defined benefit plans which provide for service pensions based on length of service and rates of pay for substantially all their employees.

The policy is to fund pension costs through contributions based on various actuarial cost methods as permitted by pension regulatory bodies. Such costs are funded as accrued and reflect actuarial assumptions regarding salary projection and future service benefits. The provision for pension cost was $218,111,000 for the year ended December 31, 1980 ($182,197,000 – 1979 and $145,452,000 – 1978). In 1979 and 1980 certain pension plans were amended to provide improved benefits to active and retired employees.

In compliance with the United States Financial Accounting Standards Board Statement No. 36, the disclosure of the following information is required to exclude actuarial assumptions regarding salary projection and future service benefits. Based on valuation data as at December 31, 1979 the actuarial present value of accumulated plan benefits totals $1,641 million, of which $1,429 million was for vested benefits and $212 million for non-vested benefits. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7%. Net assets, at market value, available for the above benefits were $1,655 million at that date.

19. Remuneration of directors and officers

During the year 1980, Bell Canada's shareholders were served by 21 directors. As such, their aggregate remuneration from Bell Canada was $303,000. Some of them served also as directors of certain subsidiaries; as such their aggregate remuneration was $157,000 from these companies.

Bell Canada had 33 officers during 1980 one of whom was also an officer of Northern Telecom Limited and their aggregate remuneration as officers was $3,899,000. Three of the officers served also as directors of Bell Canada in 1980.

In addition, amounts paid or payable by Bell Canada pursuant to special retirement plans for certain of its officers were $275,000 for 1980.

20. Industry segments information

Bell Canada and its subsidiary and associated companies operate principally in two business segments:

1) Telecommunications operations, which includes the provision of voice, visual, data, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services; and
2) Telecommunications equipment manufacturing, which involves the design, manufacture and sale of central office switching equipment, subscriber apparatus and business communications systems, transmission equipment and wire, cable and related outside plant products.

In addition "Other" includes the following business activities: contract operations, electronic office systems, directory and printing operations and for 1978 distributing operations.

The following table sets forth revenues and sales, net revenues and supplementary data for each of the company's business segments for the years ended December 31, 1980, 1979 and 1978.

			Millions of dollars
By segments	1980	1979	1978
Revenues and sales			
Telecommunications operations	$3,311(a)	$2,915(a)	$2,580(a
Telecommunications equipment manufacturing	1,751(b)	1,504(b)	1,131(b
Other	975	846	663(b
Consolidated	$6,037	$5,265	$4,374
Intersegment sales			
Telecommunications operations	$ 55	$ 47	$ 42
Telecommunications equipment manufacturing	2	3	27
Other	135	105	114
Eliminations	(192)	(155)	(183)
	$ –	$ –	$ –
Total revenues			
Telecommunications operations	$3,366	$2,962	$2,622
Telecommunications equipment manufacturing	1,753	1,507	1,158
Other	1,110	951	777
Eliminations	(192)	(155)	(183)
Consolidated	$6,037	$5,265	$4,374
Total net revenues			
Telecommunications operations	$ 868	$ 811	$ 756
Telecommunications equipment manufacturing	187	232	180
Other	53(a)	128(a)	84(a
	1,108	1,171	1,020
General corporate expenses	(83)	(78)	(74)
Consolidated	1,025	1,093	946
Equity in net income of associated companies			
Telecommunications operations	16	16	13
Telecommunications equipment manufacturing	–	–	1
Other	5	3	3
	21	19	17
Other income	52	54	32
Interest charges	(359)	(313)	(264)
Unrealized foreign currency losses	(11)	(10)	–
Income before income taxes, minority interest and extraordinary items	$ 728	$ 843	$ 731(c

20. Industry segments information (continued)

By Segments	1980	1979	1978
			Millions of dollars
Identifiable assets			
Telecommunications operations	$ 8,435	$ 7,629	$7,028
Telecommunications equipment manufacturing	1,146	983	718
Other	989	1,089	872
Eliminations	(150)	(119)	(89)
Consolidated	10,420	9,582	8,529
Investments in associated companies and non-consolidated subsidiaries			
Telecommunications operations	124	117	110
Telecommunications equipment manufacturing	–	2	3
Other	371	298	38
Consolidated	495	417	151
General corporate assets	534(d)	378(d)	525(d)
Total assets as at December 31	$11,449	$10,377	$9,205
Depreciation			
Telecommunications operations	$ 617	$ 558	$ 497
Telecommunications equipment manufacturing	42	34	25
Other	70	52	25
	729	644	547
Depreciation – general corporate assets	3	3	3
Total depreciation	$ 732	$ 647	$ 550
Capital expenditures			
Telecommunications operations	$ 1,364	$ 1,176	$1,054
Telecommunications equipment manufacturing	128	79	54
Other	102	93	65
Eliminations	–	(3)	–
	1,594	1,345	1,173
Capital expenditures – general corporate assets	4	6	11
Total capital expenditures	$ 1,598	$ 1,351	$1,184

The following table sets forth information by geographic area for the years ended December 31, 1980, 1979 and 1978.

By geographic area (e)	1980	1979	1978
			Millions of dollars
Revenues and sales			
Canada	$ 4,576	$ 4,014	$3,670
U.S.A.	838	766	469
Other	623	485	235
Consolidated	$ 6,037	$ 5,265	$4,374
Transfers between area			
Canada	$ 88	$ 67	$ 86
U.S.A.	67	20	20
Other	3	–	1
Eliminations	(158)	(87)	(107)
	$ –	$ –	$ –
Total revenues			
Canada	$ 4,664	$ 4,081	$3,756
U.S.A.	905	786	489
Other	626	485	236
Eliminations	(158)	(87)	(107)
Consolidated	$ 6,037	$ 5,265	$4,374

20. Industry segments information (continued)

			Millions of dollars
By geographic area (e)	1980	1979	1978
Total net revenues (losses) before research and development expenses			
Canada	$ 1,207	$ 1,120	$1,047
U.S.A.	(23)	144	96
Other	119	92	28
Eliminations	2	(1)	–
	1,305	1,355	1,171
Research and development expenses	(197)	(184)	(151)
General corporate expenses	(83)	(78)	(74)
Consolidated	1,025	1,093	946
Equity in net income of associated companies			
Canada	16	16	13
U.S.A.	4	2	3
Other	1	1	1
	21	19	17
Other income	52	54	32
Interest charges	(359)	(313)	(264)
Unrealized foreign currency losses	(11)	(10)	–
Income before income taxes, minority interest and extraordinary items	$ 728	$ 843	$ 731(c)

Identifiable assets			
Canada	$ 9,260	$ 8,185	$7,538
U.S.A.	884	893	628
Other	414	570	401
Eliminations	(138)	(66)	(38)
Consolidated	10,420	9,582	8,529
Investments in associated companies and non-consolidated subsidiaries			
Canada	124	117	110
U.S.A.	66	44	38
Other	305	256	3
Consolidated	495	417	151
General corporate assets	534(d)	378(d)	525(d)
Total assets as at December 31	$11,449	$10,377	$9,205

a) Telecommunications operations segment revenues include $21 million ($19 – 1979, $13 – 1978) consisting principally of contract service agreement revenues and contribution to overhead, which are also included as operating expenses in Other net revenues. These items are not eliminated on consolidation.
b) Telecommunications equipment manufacturing includes sales of $686 million ($660 – 1979, $583 – 1978) and, for 1978, Other included sales of $4 million to Bell Canada, its telephone subsidiary and associated companies. These sales are not eliminated on consolidation. Telecommunications equipment manufacturing sales of Northern Telecom Limited to Bell Canada are at prices and terms as low as those offered to Northern Telecom's most favored customers for like materials and services under comparable conditions.
c) Income before income taxes, minority interest and extraordinary items includes continuing and discontinued operations for 1978.
d) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.
e) The point of origin of revenues and sales and the location of the assets determine the geographic area.

Summarized Income Statement Non-Consolidated (Note 1)

For the years ended December 31

Thousands of dollars

		1980	1979	1978
Telecommunications operations	Operating revenues			
	Local service	$1,562,498	$1,392,707	$1,263,096
	Long distance service	1,529,014	1,329,670	1,152,507
	Miscellaneous – net	111,604	94,731	81,827
	Total operating revenues	3,203,116	2,817,108	2,497,430
	Operating expenses	2,390,316	2,054,466	1,784,497
	Net revenues – telecommunications operations	812,800	762,642	712,933
	Other income			
	Dividends			
	subsidiary companies	29,738	24,232	21,357
	associated companies	9,063	8,485	7,559
	Allowance for funds used during construction	18,554	19,964	13,530
	Miscellaneous – net	18,468	28,159	14,342
	Total other income	75,823	80,840	56,788
	Income before underlisted items	888,623	843,482	769,721
	Interest charges	286,942	252,589	231,020
	Unrealized foreign currency losses	10,029	9,890	5,487
	Income before income taxes	591,652	581,003	533,214
	Income taxes	272,561	256,370	240,118
	Income – telecommunications operations	319,091	324,633	293,096
Contract operations	Operating revenues	453,605	319,795	185,653
	Operating expenses	362,113	252,141	165,843
	Net revenues – contract operations	91,492	67,654	19,810
	Miscellaneous – net	3,593	(7,199)	(2,761)
	Income before income taxes	95,085	60,455	17,049
	Income taxes	48,235	29,278	9,328
	Income – contract operations	46,850	31,177	7,721
	Income before extraordinary item	365,941	355,810	300,817
	Extraordinary itemϕ	–	29,835	4,122
	Net income	**365,941**	**385,645**	**304,939**
	Dividends on preferred shares	38,243	30,521	38,702
	Net income applicable to common shares	**$ 327,698**	**$ 355,124**	**$ 266,237**
	Earnings per common share*			
	before extraordinary item	$2.01	$2.13	$1.96
	after extraordinary item	$2.01	$2.32	$1.99
	Assuming full dilution			
	before extraordinary item	$1.99	$2.08	$1.91
	after extraordinary item	$1.99	$2.26	$1.93
	Dividends declared per common share	**$1.68**	**$1.55**	**$1.43**
	*Based on weighted average common shares outstanding (thousands)	162,762	152,810	133,396

ϕ Gain after deducting income taxes of $4,145,000 in 1979 ($565,000 – 1978) arising from the sale, upon exercise of warrants which were exercisable prior to December 1, 1979, of common shares of Northern Telecom Limited.

Summarized Balance Sheet Non-Consolidated (Note 1)

As at December 31

		Thousands of dollars 1980	1979
Assets			
Telecommunications property – at cost	Buildings, plant and equipment	$10,275,823	$9,275,667
	Less: Accumulated depreciation	3,114,017	2,815,650
		7,161,806	6,460,017
	Land, and plant under construction	352,115	318,971
	Material and supplies	102,950	122,325
		7,616,871	6,901,313
Investments – at cost	Subsidiary companies	331,314	309,614
	Associated companies	107,971	107,971
		439,285	417,585
Current assets		854,768	749,502
Other assets	Cash and temporary cash investments held for contract operations – at cost (approximates market)	66,450	49,532
	Deferred charges		
	contract operations	47,174	90,583
	unrealized foreign currency losses, less amortization	157,798	130,567
	other	46,428	40,997
		317,850	311,679
	Total assets	**$ 9,228,774**	**$8,380,079**
Liabilities and Shareholders' Equity			
Common shareholders' equity	Common shares	$ 1,394,189	$1,320,647
	Premium on capital stock	898,098	807,778
	Retained earnings	910,875	861,322
		3,203,162	2,989,747
Convertible preferred shares (redeemable)		345,653	216,718
Non-convertible preferred shares (redeemable)		108,390	112,255
Long term debt	Includes unrealized foreign currency losses of $183,144 ($145,944 – 1979)	3,540,424	3,082,908
Current liabilities		710,312	707,756
Deferred credits	Income taxes	1,061,122	935,629
	Other	259,711	335,066
		1,320,833	1,270,695
	Total liabilities and shareholders' equity	**$ 9,228,774**	**$8,380,079**

Summarized Statement of Changes in Financial Position Non-Consolidated (Note 1)

For the years ended December 31

Thousands of dollars

		1980	1979	1978
Source of funds	Operations			
	Income before extraordinary item	$ 365,941	$ 355,810	$ 300,817
	Items not affecting current funds			
	Depreciation	586,666	531,032	473,993
	Deferred income taxes	125,493	107,769	68,891
	Allowance for funds used during construction	(18,554)	(19,964)	(13,530)
	Other – net	(20,632)	(18,344)	15,800
	Total from operations	1,038,914	956,303	845,971
	Net proceeds from the sale of common shares of a subsidiary	–	34,585	4,778
	Proceeds from long term debt	487,376	238,668	415,409
	Issue of common shares			
	underwritten issue	–	194,109	–
	under the Dividend Reinvestment and Stock Purchase Plan	83,037	64,125	30,134
	under the Optional Stock Dividend Program	1,510	–	–
	upon conversion of convertible preferred shares	71,064	74,044	125,820
	Proceeds from issue of preferred shares	196,757	–	170,903
	Advance payment on contract operations	–	–	190,587
	Decrease in cash and temporary cash investments held for contract operations	–	42,319	–
	Miscellaneous	30,665	116,763	95,107
		$1,909,323	$1,720,916	$1,878,709
Disposition of funds	Capital expenditures			
	Gross capital expenditures	$1,296,997	$1,116,743	$1,003,672
	Deduct: charges not requiring funds	(13,724)	(11,749)	(22,709)
	Increase (decrease) in material and supplies	(19,375)	20,406	4,729
	Net expenditures	1,263,898	1,125,400	985,692
	Dividends	313,127	271,092	231,815
	Reduction of long term debt	71,556	105,358	114,992
	Acquisition of investments	23,779	106,493	4,024
	Conversion of preferred shares	71,065	74,047	125,848
	Increase in cash and temporary cash investments held for contract operations	16,918	–	91,851
	Deferred charges – contract operations	–	–	112,912
	Miscellaneous	46,270	3,646	7,429
	Increase in working capital	102,710	34,880	204,146
		$1,909,323	$1,720,916	$1,878,709

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of operations

Net income
Consolidated income before extraordinary items was $363.7 million or $2.00 per common share in 1980. This compares with $433.2 million ($2.64 per share) in 1979 and $370.6 million ($2.49 per share) in 1978. The decline in 1980 as compared to 1979 resulted mainly from difficulties encountered in Northern Telecom Limited's operations, particularly in the electronic office systems sector of its business.

Northern Telecom Limited, 54.7% owned by Bell Canada at December 31, 1980, is Bell's largest subsidiary. In 1979, Northern's contribution to consolidated income was $64.8 million or $0.42 per common share; in 1980, however, Northern's results reduced consolidated income before extraordinary items by $11.9 million ($0.07 per common share).

After taking into account the extraordinary loss of $90 million ($0.55 per common share) related to write-offs by Northern in 1980, Bell's consolidated net income was reduced to $273.7 million or $1.45 per common share.

The discussion of the results of operations, which follows, addresses Telecommunications operations, Manufacturing operations and Contract and other operations separately, in parallel with the format of the consolidated income statement which appears on page 21.

Telecommunications operations
In 1980, operating revenues increased by 13.7% to $3,366.2 million while operating expenses rose by 16.2% to $2,497.6 million. In 1979, the increase in revenues was 13% and the increase in operating expenses was 15.2%. An increase in Bell's rates, made effective August 17, 1980, produced an increase in operating revenues estimated at $140 million in that year and is expected to generate approximately $376 million in operating revenues in 1981. Bell's previous rate increase, granted in August 1978, is estimated to have generated revenues of $89 million in 1978 and $247 million in 1979.

In 1980, 741 million long distance messages were handled, 7.8% more than in 1979. The increase in 1979 over 1978 was 6.9%. The total number of telephones in service at year-end 1980 was 10 million, including 3.7 million extensions. This marked an increase of 3.8% over 1979 for total telephones, excluding extensions, and 3.3% for extensions. The corresponding increases for 1979 over 1978 were 2.8% and 4.3%.

Wages, salaries and related expenses together with depreciation charges, all of which are subject to inflationary pressures, are the major components of operating expense in telecommunications operations. During the last three years they have accounted for the major part of year-over-year variances in telecommunications operating expenses. Depreciation charges have increased primarily as a result of new capital investments and the increased cost of new plant and equipment.

Manufacturing operations
Sales of manufactured products increased in 1980 to $2,018.5 million from $1,864.1 million in 1979 and $1,470 million in 1978. The 1980 increase reflects a higher level of sales of telecommunications equipment, but this was offset in part by a decline of $90.8 million in revenues from the electronic office systems business.

In 1979, approximately $200 million of the $394.1 million net increase in sales was attributable to the inclusion for the full year of acquisitions made during 1978, while the balance was largely due to increased demand in the United States for Northern's digital communications systems. Increases in Canadian sales for 1979 were offset by the effect of discontinuance, as of December 31, 1978, of the Canadian electrical and electronic products distribution business conducted by two of Northern's subsidiaries, Nedco Ltd. and Zentronics Ltd., which had recorded sales of $162.8 million in 1978.

Results of operations (continued)

Most of the growth in sales of telecommunications equipment in 1980 occurred in sales of central office telephone switching systems, notably the Digital Multiplex Systems (DMS) family of switches. Production and shipments of these switches to customers throughout the United States and Canada increased from $36 million in 1978 to $126.9 million in 1979 and $268.5 million in 1980.

Sales of subscriber apparatus and business communications systems rose to $618.6 million in 1980 from $524.7 million in 1979. This growth is attributable to increased sales of the SL-1 digital business communications system and a number of other products which have been introduced by Northern during the past few years. Sales of transmission products were also up in 1980, to $277.5 million from $227.3 million in 1979.

The uncertain economic climate of 1980 constrained sales of certain telecommunications product lines and, at year-end 1980, it appeared likely that this climate would continue, dampening sales growth for at least the first part of 1981.

Northern's electronic office systems business was formed in 1978 by the acquisition of Sycor, Inc. and Data 100 Corporation. During 1980, revenues from this activity declined sharply, to $259 million from $349.8 million in 1979. This revenue decline was due in part to Northern's decision, in the second quarter of 1980, to discontinue sales to third parties of equipment which is on lease to customers on operating leases. Such sales to third parties had been made by Sycor and Data 100 prior to their acquisition by Northern. The decision to discontinue third-party lease sales was made to permit an increase in Northern's lease base in anticipation of potentially greater future revenues and earnings at the sacrifice of the immediate cash flow and short-term profits. However, during the second half of 1980, revenues generated from the lease base continued to decline.

The problems encountered in integrating the businesses formerly conducted by Data 100 and Sycor contributed significantly to the decline in electronic office systems revenues, including revenues from the lease base. Measures were taken to restructure the electronic office systems business, streamline its organization and improve its product lines. In particular, these measures included the closing of two manufacturing plants (a third closure was announced in January 1981), and the movement of production lines of key products to more efficient facilities. These actions disrupted the production of new systems and the refurbishing of equipment in the lease base and thus brought about a further deterioration in the business. In 1981, Northern will introduce a number of new products and enhancements of existing product lines for the electronic office systems market. However, it is anticipated that the performance of this sector will be weak until the restructuring activity is completed in 1981.

Gross margins of the manufacturing operations declined to 24.9% in 1980, from 31.9% in 1979 and 32.1% in 1978. Selling, general and administrative expenses rose substantially in 1980, to $341.4 million from $280 million in 1979 and $228.9 million in 1978. Contributing to the drop in margins in 1980 were costs arising from expansion of Northern's manufacturing capacity and from bringing on stream production of new telecommunications products, especially the new DMS digital switching systems. In addition, there were the costs associated with the plant closings referred to above, including appropriate provision for the termination of employment of those people affected, for possible equipment repurchase, for uncollectible receivables and for inventory write-downs.

Other expenses, mainly for research and development (R&D) related to manufacturing operations, were $140.9 million in 1980, compared to $132.6 million in 1979 and $97.8 million in 1978. The major factor in Northern's current R&D spending is development work on its digital switching and transmission products.

Results of operations (continued)

Northern has recorded tax benefits of $32.6 million on a portion of the losses incurred in 1980 in its United States operations. In the opinion of management, sufficient taxable income will be earned in 1981 to make use of these benefits in that year. An additional $150 million of losses in U.S. and other operations, primarily incurred in 1980, is available to offset taxes payable in future periods, provided sufficient taxable income is earned.

Extraordinary item
Due to the deterioration of its electronic office systems business, Northern Telecom recorded an extraordinary loss of $163.8 million in 1980. This write-off consisted of approximately $106 million of unamortized goodwill and technology investments, and approximately $57 million relating to the discontinuance of certain elements of the electronic office systems business.

As owner of 54.7% of Northern, Bell Canada's share of this loss on consolidation was $90 million, equivalent to $0.55 per Bell Canada common share. Under United States generally accepted accounting principles, the above write-off would not be reported as an extraordinary item.

Contract and other operations
Most of the increases recorded in net revenues – contract and other operations for 1980 and 1979 are due to generally higher levels of activity in those years, associated particularly with the Saudi Arabian contract. Also, the 1980 figures reflect the results of a subsidiary in the printing business, from the date of its acquisition in the third quarter of 1980.

Capital resources

Financing activities in Bell and Northern have been carried on independently and are discussed separately hereunder.

Bell Canada
The principal requirement for funds in Bell Canada is for capital expenditures and these totalled $1,297 million in 1980. To finance these expenditures, it was necessary for Bell to supplement internally generated funds through external financing which consisted of publicly offered debt – $200 million of five-year 10 1/2% debentures in Canada and U.S. $200 million of 30-year 13 3/8% debentures issued in the United States and $284.5 million in equity – $200 million in convertible preferred shares publicly offered in Canada and $84.5 million in common shares mainly through the Shareholder Dividend Reinvestment and Stock Purchase Plan.

Bell's capital expenditure program in 1979 totalled $1,117 million. To help meet its capital requirements in 1979, Bell Canada raised some $194 million through a public offering of common shares, and publicly sold $175 million of 25-year 11% debentures in Canada and $60 million of seven-year 10 3/4% debentures in Europe. A further $64.1 million of new equity was raised in 1979 through the issue of common shares under the Dividend Reinvestment and Stock Purchase Plan.

Bell expects its capital expenditures in 1981 will amount to approximately $1,400 million in order to meet the increased demand for telecommunications services and to improve such services. To satisfy these expenditures and meet other financial commitments, it will be necessary for Bell to supplement internally generated funds with further large amounts of external capital.

In the recent period of continuing inflation, Bell's costs have been increasing more rapidly than revenues. Provided that Bell receives rate relief sufficient to maintain its financial integrity, it is expected that capital requirements can be met. Bell has recently filed an application with the Canadian Radio-television and Telecommunications Commission seeking a general increase in rates and in the allowed rate of return, to be effective September 1, 1981.

Capital resources (continued)

Northern Telecom
While Northern's working capital position has grown from $337 million at December 31, 1977, to $452.7 million at the end of 1980, the current ratio has declined from 2.76:1 to 1.76:1. Northern's fixed assets increased from $186 million at the beginning of 1978 to $498 million at year-end 1980.

In the past three years, an increasing proportion of Northern's capital has been provided from debt sources. Funds generated from operations in 1980 were $48.7 million compared to $206.4 million in 1979 and $176.2 million in 1978. To meet its capital requirements and refinance debt incurred in 1978 for acquisitions, Northern, in 1979, raised approximately $198 million through the issue of four million common shares, two million common shares publicly offered in Canada and the U.S. and two million to Bell Canada. At year-end 1980, there was $166.1 million of long-term debt outstanding under agreements with various banks. In 1980, U.S. $75 million of 12 1/4% ten-year notes were sold in the United States, $31.8 million was raised through commercial paper borrowings and $29.6 million of new common shares were issued under Northern's Shareholder Dividend Reinvestment and Stock Purchase Plan, including the shares purchased by Bell under this plan.

During the past three years, Northern has spent some $526 million on new plants and equipment and on additions to the electronic office systems business lease base. Northern management believes that it generally has sufficient plant capacity to support its planned rate of growth. As a result, capital expenditures on plant and equipment in 1981 will be lower than in 1980. At year-end 1980, Northern planned approximately $129 million of capital expenditures in 1981, including lease base additions.

Management expects that Northern's total capital requirement in 1981 will be met primarily from internally generated sources and, to the extent required, from short-term financing. In February 1981, Northern received $55 million from the sale of its investment in Intersil, Inc., resulting in a gain to Northern of $36.4 million, before taxes.

Market Price of Common Stock and Related Security Holder Matters

	1980		1979	
	High	Low	High	Low
Price ranges of common shares				
1st quarter	$21 1/8	$17 5/8	$21.96†	$20.83†
2nd quarter	$21 1/8	$17 3/4	$23 1/8	$21 3/8
3rd quarter	$20 1/2	$18 1/2	$22 3/4	$20 5/8
4th quarter	$20 7/8	$18 3/8	$22 1/2	$18 3/4

The principal markets are the Montréal Stock Exchange and the Toronto Stock Exchange and the table shows market prices on those exchanges. The common shares are also listed on the Vancouver Stock Exchange in Canada and the New York Stock Exchange in the United States as well as the Stock Exchanges of Amsterdam, Basle, Brussels, Düsseldorf, Frankfurt am Main, Geneva, London, Paris and Zürich. High and low prices on the New York Stock Exchange (U.S. dollars) were $18 3/8 and $14 1/2, respectively, during the year ended December 31, 1980.

Quarterly dividends of $0.41 per common share were paid in 1980 ($0.38 – 1979).

On November 26, 1980, an increase in the dividend on common shares was declared. The final 1980 quarterly dividend, which was paid on January 15, 1981, was raised to $0.45 – an indicated annual rate of $1.80, an increase of $0.16 over the previous annual rate.

At February 16, 1981, there were approximately 269,100 registered holders of common shares.

†Market quotations for the first quarter of 1979 have been adjusted to reflect the three-for-one subdivision of common shares.

Canadian Taxes on Foreign Investors

Income Taxes

Dividends and Interest on Bell Canada securities held by investors not residing in Canada are subject to Canadian withholding tax, unless exempted. Interest on Bell Canada series P bonds and on Series DA through DJ debentures and stock dividends paid pursuant to the Bell Canada Optional Stock Dividend Program are generally exempt from Canadian withholding tax. Unless reduced by treaty or specifically exempted, the statutory rate of Canadian withholding tax on dividends in respect of Bell Canada shares is 20% and on interest in respect of Bell Canada debt securities is 25%. The corresponding rates for Bell Canada investors qualifying under the present United States-Canada Income Tax Convention and not having a "permanent establishment" in Canada are 10% for dividends and 15% for interest.

Gains on Disposals of Bell Canada securities by a non-resident of Canada are generally not subject to Canadian income tax unless realized by the holder in connection with a business (including an "adventure in the nature of trade") carried on in Canada.

Estate and Succession Duties

There are no estate taxes or succession duties imposed by Canada or any Province of Canada with the exception of succession duties in the Province of Québec.
No Québec succession duties are payable in respect of the transmission, by reason of death of the holder, of Bell Canada securities situated outside Québec to a beneficiary who at the time of death is neither domiciled nor resident in such Province.

Selected Financial and Other Data

	1980	1979	1978	1977	1976
Consolidated					
Income statement data (millions of dollars)					
Telecommunications operations – operating revenues	$ 3,366.2	$ 2,961.6	$ 2,621.7	$ 2,241.7	$ 1,995.5
Manufacturing operations – sales	2,018.5	1,864.1	1,470.0	1,194.7	1,073.4
Contract and other operations – operating revenues	652.3	439.0	282.6	76.7	61.2
Total revenues	6,037.0	5,264.7	4,374.3	3,513.1	3,130.1
Income before extraordinary items	363.7	433.2	370.6	286.2	287.4
Net income	273.7	433.2	395.1	288.5	289.6
Balance sheet data (millions of dollars)					
Total assets*	$11,449.0	$10,376.5	$ 9,205.3	$ 7,342.9	$ 6,675.4
Common equity*	3,463.3	3,342.1	2,840.4	2,519.0	2,296.4
Convertible preferred shares* (redeemable)	345.7	216.7	290.8	241.6	260.6
Non-convertible preferred shares* (redeemable)	108.4	112.3	114.0	114.9	116.4
Minority interest*	391.9	467.7	296.7	184.8	154.1
Long term debt* (including current portion)	4,405.9	3,816.3	3,526.3	2,821.3	2,567.3
Capital expenditures	1,598.2	1,351.0	1,184.0	1,045.7	992.7
Common share data					
Earnings per common share					
before extraordinary items**	$ 2.00	$ 2.64	$ 2.49	$ 1.99	$ 2.15
after extraordinary items	$ 1.45	$ 2.64	$ 2.67	$ 2.01	$ 2.17
Dividends declared per common share	$ 1.68	$ 1.55	$ 1.43	$ 1.36	$ 1.19
Equity per common share*	$ 20.70	$ 21.09	$ 20.12	$ 19.19	$ 18.84
Percent of common shares held in Canada*	96.1	95.6	94.3	93.9	96.7
Number of shareholders* (including preferred)	272,081	250,172	228,285	221,224	225,457
Non-consolidated					
Income statement data (millions of dollars)					
Telecommunications operations – operating revenues	$ 3,203.1	$ 2,817.1	$ 2,497.4	$ 2,133.4	$ 1,903.9
Contract operations – operating revenues	453.6	319.8	185.6	–	–
Total revenues	3,656.7	3,136.9	2,683.0	2,133.4	1,903.9
Income before extraordinary item	365.9	355.8	300.8	232.9	238.5
Net income	365.9	385.6	304.9	232.9	238.5
Balance sheet data (millions of dollars)					
Investments*	$ 439.3	$ 417.6	$ 320.7	$ 320.4	$ 323.5
Total assets*	9,228.8	8,380.1	7,713.2	6,485.9	5,956.2
Long term debt* (including current portion)	3,596.9	3,187.5	3,080.7	2,632.6	2,407.1
Capital expenditures	1,297.0	1,116.7	1,003.7	951.1	901.3
Common share data					
Earnings per common share					
before extraordinary item	$ 2.01	$ 2.13	$ 1.96	$ 1.58	$ 1.74
after extraordinary item	$ 2.01	$ 2.32	$ 1.99	$ 1.58	$ 1.74
Equity per common share*	$ 19.15	$ 18.87	$ 17.96	$ 17.55	$ 17.52
Financial ratios					
Percent return on total capital	9.5	9.7	9.3	8.4	8.7
Percent return on common equity	10.6	11.5	11.1	9.0	10.1
Interest as a percent of total average debt	8.5	8.1	7.9	7.8	7.5
Times interest charges earned	3.4	3.5	3.4	3.0	3.4
Other statistics					
Telephones in service* (thousands)	9,548.1	9,221.8	8,945.4	8,620.2	8,301.4
Local conversations (millions)	12,409.9	11,974.2	11,717.1	11,522.4	11,064.3
Long distance messages (millions)	699.3	649.9	610.5	557.2	527.9
Number of employees*	57,267	56,128	53,328	50,350	48,133
Salary and wage payments (millions of dollars)	$ 1,205.4	$ 1,014.4	$ 868.1	$ 756.3	$ 646.4

*At December 31

**Including earnings (loss) per common share from discontinued operations of $(0.01) in 1978, $0.01 in 1977 and $0.02 in 1976.

Board of Directors

Marcel Bélanger, O.C., C.A.
Québec, Québec
President, Gagnon et Bélanger Inc.
Member since March 1969

G. Allan Burton, D.S.O., E.D.
Milton, Ontario
Company Director
Member since May 1974

A. Jean de Grandpré, Q.C.
Outremont, Québec
Chairman of the Board and
Chief Executive Officer, Bell Canada
Member since July 1972

J. Douglas Gibson, O.B.E.
Toronto, Ontario
Chairman of the Board of
Canadian Reinsurance Company
and of Canadian Reassurance Company
Member since March 1970

H. Clifford Hatch
Windsor, Ontario
Chairman of the Board,
Hiram Walker-Consumers
Home Ltd.
Member since April 1974

James W. Kerr
Toronto, Ontario
Consultant,
TransCanada PipeLines Limited
Member since August 1970

Paul H. Leman, O.C.
Outremont, Québec
Company Director
Member since April 1976

Walter F. Light
Toronto, Ontario
President and Chief Executive Officer,
Northern Telecom Limited
Member since January 1980

Helen L. Margison
Toronto, Ontario
Company Director
Member since April 1978

E. Neil McKelvey, Q.C.
Saint John, New Brunswick
Partner, McKelvey, Macaulay, Machum
Member since April 1973

John H. Moore
Lambeth, Ontario
Chairman of the Executive
Committee of London
Life Insurance Company
Member since March 1966

J. Dean Muncaster
Toronto, Ontario
President and Chief Executive Officer,
Canadian Tire Corporation, Limited
Member since April 1977

Gérard Plourde, O.C.
Montréal, Québec
Chairman of the Board, U A P Inc.
Member since January 1973

Robert J. Richardson, Sc.D.
Greenville, Delaware, U.S.A.
Senior Vice-President,
E.I. du Pont de Nemours and Company
Member since January 1978

John P. Robarts, P.C., C.C., Q.C.
Toronto, Ontario
Partner, Stikeman, Elliott,
Robarts & Bowman
Member since June 1971

H. Rocke Robertson, C.C., M.D.
Mountain, Ontario
Company Director
Member since July 1965

Lucien G. Rolland
Westmount, Québec
President and Chief Executive Officer,
Rolland inc.
Member since July 1965

James C. Thackray
Toronto, Ontario
President, Bell Canada
Member since April 1976

Orland Tropea
Pointe Claire, Québec
Vice-Chairman,
Bell Canada
Member since April 1980

Louise B. Vaillancourt
Outremont, Québec
Company Director
Member since January 1975

Louis Rasminsky, C.C., C.B.E.
Ottawa, Ontario
Company Director
Member since September 1973
Retired April 1980

Committees of the Board of Directors*

Executive Committee
A. J. de Grandpré–Chairman
J. W. Kerr
P. H. Leman
W. F. Light
J. H. Moore
G. Plourde
H. R. Robertson
J. C. Thackray

Audit Committee
M. Bélanger–Chairman
P. H. Leman
E. N. McKelvey
J. H. Moore
L. G. Rolland
L. B. Vaillancourt

Management Resources and Compensation Committee
J. W. Kerr–Chairman
M. Bélanger
G. A. Burton
J. D. Gibson
H. C. Hatch

Pension Fund Policy Committee
J. D. Muncaster–Chairman
G. A. Burton
J. D. Gibson
E. N. McKelvey
R. J. Richardson
J. P. Robarts

Social and Environmental Affairs Committee
L. B. Vaillancourt–Chairman
H. L. Margison
J. P. Robarts
H. R. Robertson
J. C. Thackray
O. Tropea

*as at December 31, 1980

Director, Officer Changes

Louis Rasminsky retired from the Board of Directors in April following more than six years of most valued service to the company. Elected at the last Annual Meeting to succeed Mr. Rasminsky was Orland Tropea, then Executive Vice-President (Corporate) of Bell Canada. On January 28, 1981, Mr. Tropea was appointed Vice-Chairman of the company.

On June 27, 1980, President J. C. Thackray announced several executive appointments which became effective August 1. They were: F. E. Ibey, formerly Executive Vice-President (Operations), became Executive Vice-President, (Ontario Region), G. E. Inns, formerly Executive Vice-President (Ontario Region), became Executive Vice-President (Marketing), A. M. McMahon, formerly Vice-President (Computer Communications), became Vice-President (Engineering), J. H. Farrell, formerly Vice-President (Regulatory Matters), became Vice-President (Computer Communications), J. E. Sinclair, formerly Vice-President (Systems), became Vice-President (Regulatory Matters), Robert Kearney, formerly Assistant Vice-President (Systems Development), became Vice-President (Systems).

Since September, Wilfred D. E. Anderson, formerly Vice-President (Special Assignment), has been on loan to TransCanada Telephone System as Vice-President (Operations). John E. Skinner, Vice-President (Special Assignment), retired in May after serving the company for 39 years.

Charles A. Harris, Vice-President (Public and Environmental Affairs), retired in September and was replaced by Donald J. Cruickshank effective January 1, 1981.

Officers*

Chairman

A. Jean de Grandpré, Q.C.
Chairman of the Board and Chief Executive Officer

President

James C. Thackray
President

Vice-Chairman and Executive Vice-Presidents

**Orland Tropea
Vice-Chairman

J. V. Raymond Cyr
Executive Vice-President
Administration

Frederick E. Ibey
Executive Vice-President
Ontario Region

Gordon E. Inns
Executive Vice-President
Marketing

Léonce Montambault
Executive Vice-President
Québec Region

Vice-Presidents

P. André Aubin
Vice-President
Customer Services, Québec Region

J. Robert Brûlé
Vice-President
Operations Development, Québec Region

Robert W. Crowley
Vice-President
Customer Services, Ontario Region

***Donald J. Cruickshank
Vice-President
Public and Environmental Affairs

Douglas W. Delaney
Vice-President
International

Claude Duhamel
Vice-President
Administration, Québec Region

John H. Farrell
Vice-President
Computer Communications

George L. Henthorn
Vice-President & Comptroller

W. Brian Hewat
Vice-President
Marketing and Development

Robert Kearney
Vice-President
Systems

John A. McCutcheon
Vice-President
Personnel

Andrew M. McMahon
Vice-President
Engineering

Harry Pilkington
Vice-President
Marketing, Ontario Region

Hubert A. Roth
Vice-President
Network Services, Ontario Region

Claude St-Onge
Vice-President
Network Services, Québec Region

Ernest E. Saunders, Q.C.
Vice-President
Law and Corporate Affairs

John E. Sinclair
Vice-President
Regulatory Matters

R. Douglas Sloane
Vice-President
Operations Performance

J. Stuart Spalding
Vice-President & Treasurer

John F. Stinson
Vice-President
Operations Development, Ontario Region

Robert N. Washburn
Vice-President
Administration, Ontario Region

Corporate Secretary

Guy Houle
Corporate Secretary

*as at December 31, 1980
**as at January 28, 1981
***as at January 1, 1981

Corporate Information

Trustee for Bonds

Canada Permanent Trust Company

Trustees for Debentures

The Royal Trust Company

Morgan Guaranty Trust
Company of New York

Transfer Offices for Bonds and Debentures

Bonds and debentures issued in Canada only:

The Royal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Bonds issued in the United States only:

The Royal Trust Company
Montréal

Debentures issued in the United States only:

The Royal Trust Company
Montréal

Morgan Guaranty Trust
Company of New York,
New York, N.Y.

Transfer Offices for Stock

Canada:

Company Offices
1050 Beaver Hall Hill
Montréal
393 University Ave.
Toronto

The Royal Trust Company
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Outside Canada—Common shares only:

Morgan Guaranty Trust
Company of New York,
New York, N.Y.

The Royal Trust Company
London, England

Registrar for Stock

Canada:

Montreal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Outside Canada—Common shares only:

Morgan Guaranty Trust
Company of New York,
New York, N.Y.

Williams & Glyn's Registrars Limited
London, England

Listing of Stock

Canada:

Montréal, Toronto, Vancouver
Stock Exchanges

Outside Canada—Common shares only:

Belgium
Brussels Stock Exchange

England
London Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main, Düsseldorf
Stock Exchanges

Switzerland
Zürich, Basle, Geneva
Stock Exchanges

The Netherlands
Amsterdam Stock Exchange

United States
New York Stock Exchange

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